

# **Report of the Board of Directors on the activities of the Silvair Group for the first half of the year ended 30 June 2022**

*Kraków, 28 September 2022*

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# **1. General information**

Silvair is a U.S.-based company with Polish roots that develops software for the Internet of Things (IoT). We are the world's first provider of software enabling devices to use Bluetooth Mesh – a global wireless communication standard for smart lighting, building automation and intelligent sensor networks.



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

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

## **2. Operating activities of the Silvair Group**

## 2.1 Key events and achievements of the Group in the first half of 2022

### **Signing of an agreement with Essata Technologies, Inc.**

On 1 February 2022, Silvair, Inc. concluded an agreement with Essata Technologies, Inc. based in U.S. for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware along with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware, and to provide related services.

### **Information on the issue of Company shares**

On 1 March 2022, the Issuer informed in its Current Report no. 3/2022 that the Company had issued 457,057 Common Shares with a nominal value of USD 0.1 each ("Issue") for the benefit of the Company's associates and employees, as part of the Company's Stock Plan ("2016 Stock Plan") described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 25 June 2018 ("Stock Plan").

### **Information on admitting Silvair, Inc. shares to public trading**

On 16 March 2022, the Issuer informed - in its Current Report No. 5/2022 - that on 16 March 2022 the Management Board of the Warsaw Stock Exchange decided to: 1) introduce to trading on the parallel market, as of 18 March 2022, 1,625,985 ordinary bearer shares in the Company with a nominal value of USD 0.10 each ("Shares"), registered by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) under ISIN code USU827061099; and 2) list the Shares in the continuous trading system: (i) in the listing class referred to in § 71 item 5) of Section IV of Detailed Stock Exchange Trading Rules in the UTP system; (ii) under an abbreviated name of "SILVAIR-REGS" and a ticker of "SVRS". On 25 March 2022, in accordance with the decision of the National Depository for Securities no. 246/2022, dated 15 March 2022, 1,625,985 common bearer shares with a nominal value of USD 0.10 each, marked with the ISIN code USU827061099, were registered.

### **Information on the issue of debt securities convertible to shares**

On 9 June 2022, the Issuer informed in Current Report no. 9/2022 that on the same day the Board of Directors adopted a resolution approving incurring liabilities up to a total nominal amount of USD 3.0 million in the form of an issue of debt securities convertible into common shares of the Company's new issue (Convertible Promissory Notes). As part of this issue, by the date of publication of this report, the Company has issued Convertible Securities in the total amount of USD 1.25 million.

### **Silvair technology with the prestigious LFI 2022 Technical Innovation Award**

The winners of the annual prestigious LightFair Innovation Awards were traditionally announced during trade fairs LightFair International 2022 which took place in Las Vegas on June 19-23. LightFair International is the most important industry event of its kind in the United States. The awards are given to the most innovative lighting products that have appeared on the market over the last year. In the Technical Innovation Award category, the winner was McWong International with its TruBlu controller for outdoor use. McWong is a partner of the Silvair Group, and in terms of the lighting control technology used, the awarded component is entirely based on wireless solutions developed by the Group.

## **Silvair technology awarded with BrightStar Awards 2022**

The innovative nature of the technology developed by the Silvair Group has also been appreciated by the lighting magazine LEDs Magazine, which is a leading industry periodical on the American market. In the Horticultural SSL and Controls Systems category, which includes lighting solutions and products for the horticulture market, the BrightStar Award 2022 was awarded to Fluence for its Wireless Flex Dimming solution. Fluence is a partner of the Silvair Group, and the awarded solution is based on the wireless lighting control technology developed by the Group.

### **Patents**

In the period from 1 January 2022 to 30 June 2022, the United States Patent and Trademark Office applied patent protection to one new solution submitted by companies from the Silvair Group. In total, the number of innovative solutions covered by patent protection in the Silvair Group has increased in 2022 to 24.

## **2.2 Material events after the balance sheet date**

### **Information on the issue of debt securities convertible to shares**

On 17 August 2022, the Issuer informed in Current Report no. 23/2022 that the Company had issued Convertible Securities with a total nominal amount of USD 0.25 million within the limit of liabilities and on the terms approved by the resolution of the Board of Directors on 9 June 2022. As part of this issue, by the date of publication of this report, the Company has issued Convertible Securities in the total amount of USD 1.25 million.

### **Lighting projects using Silvair technology awarded at the IES 2022 conference**

The annual IES conference organized by the Illuminating Engineering Society is one of the most important industry conferences held in the United States. During this year's edition, which took place on August 18-20 in New Orleans, awards were traditionally handed out to completed lighting projects that stand out from other implementations carried out on a daily basis in the American market. Among the awarded projects there were as many as three installations implemented based on the wireless lighting control technology developed by the Silvair Group: the modernization of the lighting infrastructure in Yamaha Motor Corporation warehouses in Pleasant Prairie, the modernization of lighting in North Bakersfield Toyota sales offices in Bakersfield, and the lighting installation at the Spring House Innovation Park campus in Philadelphia. The jury of the competition emphasized the advanced use of sensors and the innovative nature of the lighting control technology implemented in the above-mentioned locations. Each of these projects was previously described in detail in case study materials published by the Group or its partners (McWong and Linmore LED).

### **Information on the issue of Company shares**

On 19 September 2022, Silvair, Inc. ("Company") informed in Current Report no. 25/2022 that the Company had issued 46,618 Common Shares with a nominal value of USD 0.1 each for the benefit of the Company's associates and employees, as part of the Company's Stock Plan ("2016 Stock Plan") described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 25 June 2018.

## Acquisition of Fluence by the Signify group

As a result of the process that ended on 2 May 2022, SIGNIFY N.V. acquired – from OSRAM GmbH based in Munich, Germany ("OSRAM") – shares in Fluence Bioengineering, Inc. based in Austin, U.S. ("Fluence"); thus Fluence is now part of the SIGNIFY group. Consequently, on 22 September 2022, Silvair sp.z o.o. signed an Agreement on the Split of a Purchase Agreement ("Agreement") with OSRAM and Fluence. On the basis of the Agreement, the parties confirmed that Fluence and other subsidiaries of the SIGNIFY group assume the rights and obligations of OSRAM resulting from the following agreements (including annexes) previously concluded between Silvair sp.z o.o. and OSRAM: agreement of 8 July 2019 for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware with a set of tools for implementation on the production line, agreement of 8 July 2019 for the sale of Silvair Commissioning (part of the Silvair platform), which includes the provision of tools for the configuration of smart lighting networks based on Bluetooth Mesh technology in the Lighting Control as a Service (LCaaS) model, and the agreement of 11 February 2021 for the provision of services for obtaining and processing data based on the lighting infrastructure ("Silvair Connected Services").

## 2.3 Description of the Silvair Group and its development directions

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

### **Silvair, Inc. develops software within the so-called Internet of Things (IoT).**

The Company's strategic goal is to achieve a leading position in the market of suppliers of modern technological solutions related to the Internet of Things. The Group's offer includes, among others, wireless lighting control solutions (*Lighting Control*), including firmware for lighting components that is based on the Bluetooth Mesh standard, as well as tools for commissioning and managing wireless lighting control systems.

The Company enables component manufacturers to quickly integrate Silvair Firmware into their devices without incurring significant costs related to the independent development of the appropriate technology. This in turn allows them to quickly enter the market of wireless lighting control solutions, the share of which in the global lighting market is steadily growing, and which are already today widely regarded as the future of the lighting industry. The tools for commissioning and managing wireless lighting control systems, which the Company provides to its partners, set new trends in the lighting control sector. They allow users to commission and manage the network from the level of applications that are available for commonly used mobile devices (smartphones, tablets). Using the innovative approaches provided by the Bluetooth Mesh standard, the Company has introduced a number of user-friendly solutions that significantly facilitate network commissioning and management, which in turn accelerates the entire process and considerably reduces the cost of commissioning of a lighting control system.

Silvair also develops tools that allow the analysis and use of data generated by lighting infrastructure - including both operational data related to the current functioning of the installation (*Connected Lighting*), as well as data generated by sensors that are part of the lighting infrastructure (*Building Intelligence*). The said



tools allow the provision of innovative services that can be offered, among others, in a subscription model. Appropriately processed operational data related to the current functioning of the lighting installation make it easier for commercial space managers to automate the processes related to the management of lighting infrastructure, which directly translates into maintenance costs reduction (through i.a. automatic monitoring of the condition of devices, monitoring of the level of electricity consumption, or automation of mandatory emergency lighting tests).

On the other hand, the use of data generated by sensors that are part of the lighting infrastructure gives managers and owners a detailed insight into the processes taking place inside their properties, which allows for using the available resources in a more efficient way and increasing the quality of services provided to tenants and occupants of commercial spaces. In particular, such data can be used, among others, to: monitor the occupancy of commercial spaces (for example to optimize space utilization or enable more efficient management of HVAC infrastructure), enable radio location of resources on a floor plan (to optimize warehouse logistics or enable faster identification and finding of key resources, e.g. medical apparatus in hospitals), or to navigate people through indoor spaces.

The Company's business and marketing activity covers the global market, and in particular the markets of North America (with particular emphasis on the states of California and New York) and Western Europe (mainly Great Britain, Germany, and Benelux countries). Silvair solutions are regularly presented at major lighting trade fairs and conferences in various parts of the world.

## 2.4 Board of Directors

As of the date of publication of this report, the composition of the Board of Directors is as follows:

### **Rafal Han, Chief Executive Officer**

Co-founder and CEO of Silvair. Experienced entrepreneur who has been managing his own businesses in the area of marketing and advertising for more than a dozen years. In his companies, he was responsible for, among others, global marketing strategies and negotiations with business partners from the U.S. and Europe. He successfully co-founded multiple start-ups (including futbolowo.pl, Estimote, Duckie Deck, ciufcia.pl) in Poland and in the Silicone Valley. For nearly 6 years, he has devoted himself exclusively to Silvair.

### **Szymon Słupik, Chief Technology Officer (CTO)**

Co-founder of Silvair, President of the Board of Directors. A technology expert with many years of experience and an engineer whose work is appreciated in the Silicon Valley. He graduated from the AGH University of Science and Technology in Kraków with a degree in Electronics. Since 2016, he has served as the Chairman of the Bluetooth Mesh task force which brings together 150 leading global technology companies. In 1992-2004, he was the founder and vicepresident of CDN S.A., a company dealing with ERP systems, where he was responsible for the strategy of technological development and the software production department. Later on he occupied managerial positions in Wind Mobile (currently Ailleron).

### **Adam Gembala, Chief Financial Officer (CFO)**

Co-founder of Silvair, Vice-President of the Board of Directors, Chief Financial Officer. Graduate of the Kraków University of Economics. He used to work as a broker managing equity and fixed income funds. He also discharged the functions of chief financial officer, president of the board, and member of the board at companies operating i.a. in the fuel, TMT and real estate sectors.

### **Paweł Szymański, Non-executive Director**

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

### **Christopher Morawski, Non-executive Director**

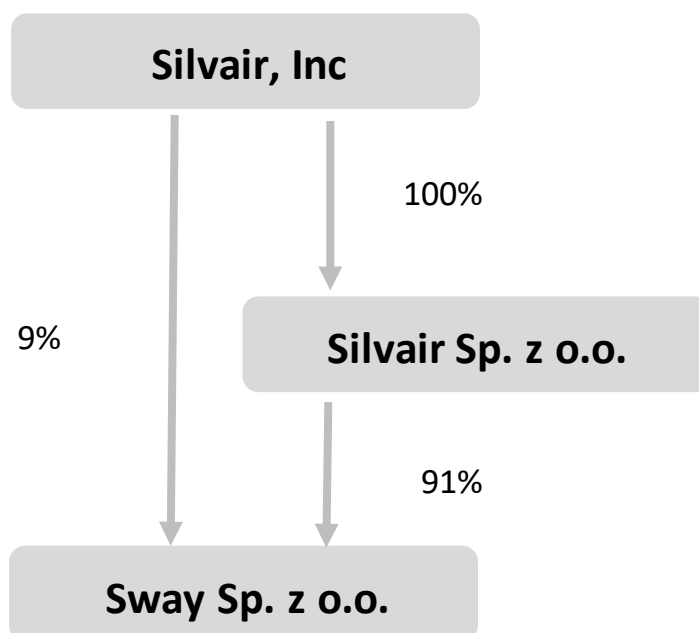
A graduate of McGill University in Montreal. An experienced manager with many years of experience in the field of international capital and financial transactions, strategic product development, market analysis and modeling of company financing. In the past, he dealt with technical specification and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

## Composition of the Board of Directors as of 30 June 2022

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

## 2.5 Structure of the Silvair Group

The Group comprises Silvair, Inc., which is the parent company, and two subsidiaries: Silvair Sp. z o.o and Sway Sp. z o.o ("Subsidiaries"), which are consolidated by the Company. Presented below is the structure of the Group as at 30 June 2022, showing the Company's percentage share in the share capital of each of the Subsidiaries, resulting from the number of shares held in them.



**Silvair, Inc.** is the Group's Parent Company preparing consolidated financial statements. As at 30 June 2022, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o.

#### **Silvair sp. z o.o.**

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

#### **Sway sp. z o.o.**

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

## **2.6 Operating segments**

The Group focuses its activities on three main market segments:

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

### **Lighting Control**

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

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

**Silvair Lighting Firmware** is firmware based on the global Bluetooth Mesh standard. After integration with a lighting component, it enables wireless communication with other devices using the Bluetooth Mesh technology. This, in turn, opens up multiple new possibilities with regard to lighting control, monitoring of

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

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

### **Smart lighting services (Connected Lighting)**

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

### **Smart building management (Building Intelligence)**

The smart building management segment includes entities that provide infrastructure and/or software solutions that allow property owners and managers to make more efficient use of commercial spaces, and to streamline processes occurring inside and outside buildings. For a long time, the provision of such services required implementing a dedicated infrastructure, e.g. a network of cameras or monitoring sensors.

However, the technological progress that has taken place over recent years in the area of wireless communication enables many of these services to be provided today via smart lighting network infrastructure.

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

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

The description of transactions executed between related entities is provided in Note 38 to the Interim Consolidated Financial Statements of the Silvair Group for the first half of 2022. All transactions with related entities were executed on an arm's length basis.

## 2.8 Business development

### Business activity

In the first half of 2022, the Silvair Group consistently continued the activities that had previously been identified as key to achieving the market success of the Bluetooth Mesh standard and the products offered by the Group. On the one hand, this means building new and developing existing business relations with entities operating in the lighting industry - including, in particular, manufacturers of lighting components and suppliers of lighting control solutions. The constant expansion of the number of partners in both of these areas allows the Group to systematically increase the level of sales and reach a growing group of customers with its products. On the other hand, the Group continued to develop its products by adding new and improving the existing functionalities in response to the market needs indicated by the Group's partners.

Continuous efforts to increase the number of the Group's partners, combined with the increasing activity of key partners with regard to the application of Silvair technology in implemented lighting projects, translate into an increasingly dynamic growth of indicators reflecting the level of adoption of the Group's solutions by the lighting industry. The Group continues to perceive the number of devices installed using Silvair Commissioning tools as the most important of these indicators, since it is the most accurate representation of the actual use of smart components with Silvair Firmware in commercial lighting projects. In individual months of the first half of 2022, this number was on average 3 times higher than in the corresponding months of the previous year. In April, the monthly number of devices installed in projects for the first time in the company's history exceeded the level of 6,000. In June, over 7,000 devices were installed, and after the end of the reporting period - in August 2022 - the number of installed devices amounted to almost 9,500, approaching the symbolic level of 10,000 devices. Also in August, another milestone was reached - the total number of lighting devices installed so far using Silvair Commissioning tools has exceeded 100,000. In the same month, the total number of components with Silvair Firmware manufactured so far, for which the activation fee has already been paid, reached the level of almost 200,000 units. The Group expects a further, increasingly dynamic growth in the number of implemented installations and manufactured components over the next quarters. On the one hand, it is an expected and highly desirable trend, as it directly translates into increased income, business development and strengthening Silvair's position in the lighting market. On the other hand, further dynamic increase in sales will be a significant challenge from the point of view of the scalability of both the business and the technology offered by the Group. The Group is getting ready for a surge in demand for the offered products and solutions, and these preparations apply both to the areas of HR and logistics (i.a. the need to ensure an appropriate level of support for partners amid an increasing number of inquiries and interactions), as well as to purely technological issues related to failure-free operation of key product infrastructure (i.a. ensuring adequate capacity amid constantly growing data volumes).

The aforementioned surge in demand for the Group's products is expected not only on the basis of data on the number of devices installed in individual reporting periods, but also on the basis of numerous signals coming directly from the market. The high quality of the offered products, numerous benefits resulting from the use of Silvair technology in lighting projects, a high level of end-user satisfaction, and the increasingly stronger position of the Bluetooth Mesh standard in the lighting market – as a result of all of this, the Group's partners are increasing their forecasts regarding the future numbers of manufactured components and implemented projects. The way and scale of the application of Silvair technology in commercial projects are also changing. In the first phase of commercialization, this technology had to prove its effectiveness and reliability in a number of single projects implemented by the Group's partners. Now that Silvair's solutions are already considered proven and reliable, key partners are ready to use them on a large scale in ongoing

undertakings. As a result, solutions based on Silvair technology are submitted by the Group's partners i.a. for tenders concerning modernization programs that cover hundreds or even thousands of locations operating under the same business brand. This new channel for reaching the market may bring about a sudden and significant increase in sales, which would have a significant impact on the Group's results, but at the same time would require the allocation of significant resources in order to properly handle orders on such a large scale.

At the same time, the direction of the Group's business development in the first half of 2022 was largely determined by the dynamically changing macroeconomic conditions and current trends observed in the lighting industry. Some of them resulted directly from the need to address new global challenges that emerged on the horizon in recent quarters. The drastic increase in energy prices on the global market, which is a consequence of, among others, the escalation of the conflict in Ukraine and the introduction of unprecedented sanctions on the import of energy resources from the Russian Federation, had a significant impact also on the landscape of the lighting industry. Energy savings resulting from the use of smart lighting control networks were previously perceived as just one of the many benefits of using the solutions offered by the Group. Today, with the drastic increase in energy prices, they are becoming a top priority. This change, clearly noticeable in the period covered by this report, was reflected in both the business and product strategy of the Silvair Group.

### **Development of products**

Product development in the first half of 2022 was carried out in accordance with the previously adopted work schedule, while also taking into account the current needs of the Group's key partners as well as trends observed in the broadly defined lighting market.

At the beginning of the year, the Group released – to selected partners – the first package of services from the Connected Lighting category. These are services relating to the collection and processing of data generated by smart lighting networks, which go beyond the framework of traditionally understood lighting control. The first package of Connected Lighting Services included, among others, the following functionalities:

- precise monitoring of electricity consumption by individual parts of the lighting infrastructure,
- a tool enabling the automatic calculation of energy savings related to the modernization of the lighting system using the solutions developed by the Group,
- monitoring of the occupancy of individual rooms and areas on the building plan,
- tools for remote control and monitoring of the operation of the lighting infrastructure,
- API solutions that enable partners to deliver data from the lighting control system directly to other applications and systems for more efficient use of existing resources (including APIs for data relating to electricity consumption and space occupancy, or APIs for remote control of the lighting control system).

These services have been made available to selected partners in the beta version in order to thoroughly test them in operating installations, collect feedback, and potentially improve selected functionalities in response to comments/needs reported by partners and users. They are planned to be released to a wide audience in the final shape and fully commercial form in the second half of the year. An important part of the Connected Lighting segment - especially in the face of changing macroeconomic conditions and market trends - are services relating to the precise monitoring of energy consumption by the lighting network and estimating energy savings resulting from the implementation of Silvair technology. Already in the first months of the year, the Group received signals from its partners that these tools allow them to enter new



markets and win new contracts with entities for which energy efficiency issues are of the highest priority. In the United States, precise monitoring of electricity consumption also enables commercial space managers to claim substantial rebates on lighting retrofit projects.

An important functionality made available to partners in the first half of the year was the functionality of automatic emergency lighting testing. Regular testing of emergency lighting is required by relevant legal regulations, which entails tangible costs for managers and owners of commercial spaces. The solution developed by the Group uses the capabilities of the Bluetooth Mesh standard to automate such tests and generate test reports, which greatly facilitates the management of emergency lighting systems and reduces the costs associated with their maintenance.

In the first half of 2022, great emphasis was also placed on developing tools that allow installers to independently diagnose and solve unexpected difficulties they may encounter when implementing a wireless lighting control network. The development of tools enabling effective diagnostics of the mesh network and individual components of the lighting control system is of particular importance in the face of the observed dynamic increase in the number of installed devices.

### **Marketing activity**

In the first half of 2022, the Group continued various marketing activities aimed at raising the market's awareness about the offered solutions as well as the benefits resulting from the application of Bluetooth Mesh technology in wireless lighting control systems. In cooperation with partners, a number of case study materials were published that document new projects utilizing Silvair solutions. With the marketing support of the leading industry periodical LEDs Magazine, a webinar was organized for lighting specialists on the issue of energy efficiency of wireless lighting control systems. Rafał Han, CEO of Silvair, took part in the popular industry conference LEDucation, during which he gave a lecture presenting trends regarding the democratization of lighting control and how wireless control systems can contribute to increasing the energy efficiency of commercial buildings. Various types of publications (articles, blog posts, etc.) also appeared in leading industry media (e.g. LEDs Magazine and Bluetooth.com website), in which representatives of the Silvair Group described various aspects of wireless lighting control and the benefits resulting from use of Silvair solutions in commercial spaces.

From a marketing point of view, the most significant event of the first half of the year was LightFair International 2022, which took place on June 19-23 in Las Vegas. It is the most important industry event of this type in the United States. It was also the first opportunity since the outbreak of the Covid-19 pandemic to meet so many representatives of the lighting industry in one place and present the Group's product offer at an event of such importance. The Silvair Group came to LightFair International 2022 with its own booth where it was showcasing how Silvair technology works in practice. Most of the Group's American partners also had their booths at the fair, and each of these booths featured a mention of the technological partnership established with the Silvair Group. During the fair, the representatives of the Group conducted dozens of promising business talks and it can be expected that some of the relations established during the event will soon result in new partnerships and contacts. The first such important industry event since the outbreak of the pandemic also confirmed the very high market recognition of the Silvair brand, which is the result of many years of consistent educational and marketing activities conducted since the adoption of the Bluetooth Mesh standard.

### **3. Characteristics of the market on which the Group operates**

## 3.1 Smart lighting market drivers

### Increase in energy prices

Since the second half of 2021, a sharp increase in the prices of energy carriers can be observed. This phenomenon is global in nature, but has recently hit the European Union countries particularly hard. Eurostat data show that on average in the EU countries, energy carriers for households in June this year were more expensive by as much as 41.8% than a year earlier. The unprecedented price increases are the result of the accumulation of many different factors, but only some of them could have been predicted until recently. The gradual increase in prices was expected as a consequence of the ambitious climate policy pursued, in particular, by the European Union. But the dynamics of this growth accelerated as a result of the economic recovery after the Covid-19 pandemic and the easing of transport restrictions. The year 2022 brought even greater increases, which was largely due to Russia's military aggression against Ukraine and its economic and political consequences. The crisis was aggravated by extreme climatic conditions, including a heatwave in Europe, that have had a negative impact on the production capacity of nuclear and hydro power plants, while increasing the demand for energy used for cooling purposes. At the same time, we are also dealing with a drastic increase in gas prices on global markets and the increase in its consumption resulting from the economic recovery in Asia. This all shows that the scale of problems has become so large that we can already talk about a global energy crisis which, according to many experts, may last for many years to come.

Therefore, it can be expected that attempts will be made to mitigate the negative impact of high energy prices on the functioning of individual branches of the economy. One of potential measures could involve bolder and faster introduction of energy-saving technologies in various areas of life. This also applies to commercial spaces, where lighting is one of the main sources of energy demand and an important component of the total costs incurred. Taking into account the fact that the implementation of a wireless lighting control system is incomparably easier, cheaper and much less invasive than modernization of other elements of the key building infrastructure, it can be assumed that in the face of the expected long-term energy crisis, owners and managers of commercial spaces will be much more inclined to use wireless lighting control systems to reduce energy consumption and thus reduce the costs associated with the operation of lighting installations.

### Dynamic development of the LED lighting market

Over the past decade, the LED technology has dominated the lighting market. Widely used in new construction, it is quickly replacing obsolete solutions also in existing buildings. According to the analysis of Goldman Sachs, in 2025 the share of LEDs in the global lighting market may be as high as 95%, compared to just 1% share recorded in 2010. Such a quick pace of this global technological shift results from the fact that it is undoubtedly the most effective of the currently available lighting technologies, which at the same time offers incomparably more possibilities with regard to lighting control. What guarantees a further increase in the share of the LED technology in the global market is not only its high utility value compared to other technologies (e.g. higher quality of emitted light, longer lifetime, lower electricity consumption), but also the fact that it is favored by legislative bodies - which is a direct consequence of higher energy efficiency of LED products. LEDs emit negligible amounts of heat, while e.g. traditional incandescent lamps release up to 90% of their energy in this form. For compact fluorescent lamps, this ratio amounts to around 80%. As a result, we can observe a long-lasting trend of favoring LED technologies by governments of individual countries, as well as political and economic unions. For example, already in September 2009 the European Union introduced a ban on the sale of traditional, energy-intensive tungsten filament bulbs with a power rating of 100 W or more. Regulations from subsequent years eliminated other conventional light bulbs from the

market, while tightening the energy standards for compact fluorescent lamps. In the second half of the last decade, the European Commission tightened regulations also on halogen lamps, eventually banning their production and sale in September 2018. EU regulations in this regard are among the most restrictive, but similar resolutions aimed at increasing the energy efficiency of lighting products have been adopted in recent years almost worldwide, also in countries with a lower degree of economic development. In the face of the aforementioned global energy crisis, it can be expected that the LEDification process will gain even greater pace, and that outdated and energy-intensive lighting technologies will be even more effectively replaced by LED lamps.

### **Progressing climate changes**

In the public space, there is still an ongoing discussion about the extent to which the progressing climate changes and anthropogenic warming of the Earth's climate system is a consequence of human activity, and the extent to which it is the result of the planet's natural cycles. The scientific world seems to have no doubts, however, that human activity is unequivocally related to the rapid global warming of the climate. It is also estimated that if the process continues at the current pace, then in the next dozen to several dozen years the temperature will increase to a level beyond which we will not be able to avoid the catastrophic effects of global warming. To prevent this, it is necessary to drastically reduce the emission of CO<sub>2</sub> and other substances emitted into the atmosphere (including methane, nitrous oxide and fluorinated greenhouse gases). This requires far-reaching economic and social changes and a profound transformation in many sectors of the economy. Today, counteracting climate change is becoming a top priority in highly developed countries, which results in numerous legal regulations and long-term transformation programs aimed at reducing the harmful impact of human activity on the Earth's climate system. It should be expected that with the passage of time and the growing need to reduce emissions, replacing obsolete and highly energy-intensive technologies with modern energy-saving solutions will become an absolute necessity in almost all areas of our lives. Considering the prevalence of lighting infrastructure, it is hard to imagine that this segment could not be subject to an equally deep transformation aimed at radically increasing energy efficiency and eliminating excessive energy consumption.

### **Increasing the energy efficiency of buildings**

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

The potential for energy savings in the segment of built-up infrastructure is very large considering how much of the world's energy production is consumed by buildings. Technological progress in the area of key building

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

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

It should also be mentioned that, according to the estimates of the European Commission, commercial buildings are on average about 40% more energy-intensive than residential buildings (on average 250 kWh/m<sup>2</sup> compared to 180 kWh/m<sup>2</sup>). The share of lighting in total energy consumption is also significantly higher in the commercial segment. This means that in commercial spaces, the possibilities for improving the energy efficiency of lighting are much greater - especially through the implementation of advanced lighting control strategies whose effectiveness in reducing energy consumption is proven and indisputable.

### **Dynamic development of the horticulture lighting market**

The horticulture lighting market is a relatively new segment, which in recent years has caught the attention of major lighting manufacturers due to its prospects for dynamic growth and high business potential. Growing in a controlled environment has a number of significant advantages over traditional cultivation. Independence of environmental conditions, such as sunlight, temperature or pest activity allows obtaining crops of the highest quality, significantly increasing the efficiency of the entire process, and eliminating the need for intensive use of pesticides.

With global food demand continuing to rise, water supplies decreasing, and climate change negatively impacting traditional farming methods, there are a growing number of legislative initiatives in the global marketplace that promote the adoption of controlled environment farming practices. Lighting plays a key role in the process of growing crops in a controlled environment. By properly adjusting light intensity and color to the needs of particular crop species throughout the production cycle, it is possible to achieve yields with the desired characteristics and quality that are extremely difficult to achieve with traditional methods. Precise lighting control technology is essential to achieve the results mentioned above. The same features of Bluetooth Mesh technology, which generate a number of measurable benefits in lighting control systems installed in commercial spaces, allow for a significant reduction in the cost of lighting installations used to grow crops in a controlled environment. No additional wiring, flexibility in terms of configuration and

reconfiguration, ease of installation and operation - these are just some of the features that make Bluetooth Mesh-based wireless lighting control technology a perfect match for the demanding requirements of crop lighting in vertical farms and greenhouses. Considering the fact that the horticulture market is a relatively young segment, where different solutions are still being tested to achieve optimal results, it can be assumed that it is very open to the use of the latest wireless lighting control technologies (as opposed to commercial spaces, where wired solutions often still win over wireless ones due to the habits of designers and installers who have been using wired systems for decades). Addressing the needs of horticulture industry stakeholders can lead to rapid adoption of wireless solutions that in a controlled environment have a number of advantages over traditional lighting control systems.

## Legal regulations

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

Energy codes are an example of this type of legislative trend. They impose specific requirements on building owners regarding the operation of key building infrastructure, including the lighting system. In the case of lighting, these requirements mainly relate to the implementation of a wide spectrum of advanced lighting control strategies to reduce lighting operation wherever lighting is not needed at a given moment. For example, energy codes may impose the obligation to implement automatic occupancy-based controls (occupancy sensing) in certain types of spaces (e.g. toilets, staircases), or the obligation to automatically control the intensity of artificial light based on natural light availability (daylight harvesting) e.g. in office rooms. In the United States, these requirements vary from state to state, although most of the applicable energy codes are based on one of two national standards for the energy efficiency of commercial buildings. These are:

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

In addition, some of the states have decided to introduce their own energy codes. One example is California which was the first state to introduce minimum energy efficiency standards as early as in 1974. This is also

where America's first energy regulation commission - California Energy Commission - was established. Currently, every three years the body publishes the Title 24 standard which is one of the most demanding energy codes as far as lighting control is concerned. It should be mentioned that as a result of these longterm efforts to improve energy efficiency, California today has one of the lowest energy consumption rates per capita.

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

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

### **Support and grant systems**

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

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

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

### **Global COVID-19 pandemic as a catalyst for changes in commercial spaces**

Like almost every segment of the economy, the lighting industry and the commercial real estate sector have recently been struggling with the economic consequences of the COVID-19 pandemic. Widespread lockdown and various restrictions limiting the freedom to conduct business activity have had a clearly negative impact on entities operating in these industries. On the other hand, the circumstances surrounding the global pandemic required decisions and actions that may prove beneficial for the widespread adoption of smart lighting technologies. In this context, COVID-19 may become a catalyst for changes in commercial spaces, accelerating trends that previously might have lacked proper dynamics.

One example of such a trend is a radical change in the approach to remote work. This change was in the first place forced by the introduction of lockdown in many countries during the first wave of COVID-19. As the restrictions were eased over time, some employees returned to their workplaces, but many office spaces still remain empty to a large extent. As research shows, especially among large private companies, there are many that still operate in the remote or hybrid work model. Despite the progress in the fight against COVID-19, it is not possible to predict when the pandemic problem will be finally resolved - and only then will it be possible to fully assess how the post-pandemic office reality differs from the pre-pandemic one. However, many companies already today declare that they do not plan to return to the stationary working system. The pandemic has undoubtedly made both employees and employers familiar with the remote working model. And even if – once pandemic ends – only few entities decide to remain in the full-time remote work model, the mental change regarding the approach to remote work has already taken place. This change is in line with the trend of making workplaces and working time increasingly flexible, which has been noticeable in certain industries already for some time.

Departure from the traditional model of work requires changes in the ways how commercial spaces are managed - also with regard to the operation of lighting infrastructure. Traditional centralized lighting control systems, which are still used in many office buildings today, seem particularly ineffective and archaic in this context. Lighting the entire floor of an office building is completely unnecessary if only a couple of persons are present there at a given moment. Smart lighting control systems that enable flexible adjustment of lighting conditions to current needs seem to be a perfect answer to the challenges accompanying the trend of making workplaces and working time more flexible, and the COVID-19 pandemic may significantly contribute to their faster adoption. Taking into account the fact that owners of commercial spaces have suffered a significant decline in revenues as a result of the pandemic, it should be expected that they will now be more willing than ever to optimize costs by investing in solutions that can improve the energy efficiency of their properties.



## 3.2 Smart lighting market barriers

### Supply chain disruptions and the global semiconductor shortage

For quite a long time, the global economy has been facing the problem of the shortage of semiconductors that are used on a mass scale to produce all kinds of electronic devices. The semiconductor crisis began in 2020 with the advent of the global Covid-19 pandemic. The introduction of numerous limitations in the functioning of economies significantly reduced the production capacity in this area, which led to the collapse of the supply chain on a global scale. This had a particularly strong impact on the industries that use semiconductors for the production of cars, electronic equipment or household appliances. The situation was worsened by a significant increase in demand for personal computers and game consoles, which was observed in the initial period of the pandemic. Due to the lack of regular deliveries, producers were forced to use warehouse stocks which quickly ran out. Despite a significant mitigation of the economic impact of the pandemic, the balance in the semiconductor market has not yet been restored. The Russian aggression against Ukraine is also an important factor in this regard. Both Russia and Ukraine are key exporters of rare gases and metals necessary for the production of semiconductors, such as neon, palladium and platinum. Analysts predict that the semiconductor crisis may last until 2023 or 2024, although there are many factors that could potentially affect further developments. In addition to the unforeseeable course of events in Ukraine, the recent political tensions between Taiwan and China should also be mentioned here. The escalation of these tensions could have catastrophic consequences for the global economy, given that Taiwan is a key global manufacturing center for integrated circuits supplied to the global industry.

The protracted problems in the semiconductor market also hit the smart lighting segment directly, causing a shortage of components used in wireless lighting control systems. In recent quarters, some of the Group's partners have been forced to reduce their forecasts for the production volume of smart components due to irregular semiconductor deliveries and constant shortages in inventory. Disruptions in the production of components may adversely affect their market availability, which in turn may translate into a smaller number of lighting projects implemented. Therefore, there is a justified concern that the protracted crisis in the semiconductor market may slow down the pace of commercialization of smart lighting technology.

### Lack of standardization and interoperability

Over the past decade, the main roadblock to adoption of smart lighting technologies has been the lack of standardization with regard to solutions available on the market. Suppliers have offered "closed" proprietary systems based on various, often additionally modified wireless technologies. Due to the lack of a global standard, smart lighting components from different manufacturers could not operate with each other, while customers who decided to implement a "closed" lighting control system had to face a significant business risk. Product line discontinuation or a bankruptcy of a system supplier deprived them of the necessary technological support (cloud infrastructure, software updates eliminating potential bugs, availability of components for faulty device replacement, etc.). Same risks applied to the manufacturers of lighting components who used the services of third party companies supplying a wireless communication technology for their products. A potential bankruptcy of a supplier of proprietary wireless solutions would leave both the manufacturer and its customers without the technological support that is necessary to continue using products based on these solutions. Since lighting companies have never dealt with software development and do not have the necessary resources and technological know-how, the above risks prevented them from entering the market of wireless lighting control. The only effective method to solve the above problems is the widespread adoption of a global, open and transparent wireless communication standard for lighting applications. The problem of lack of standardization and interoperability relates not

only to the wireless communication technology itself, but also e.g. to software interfaces and formats of data generated by smart devices. The latter issue seems particularly important for unlocking the full potential of smart lighting solutions. The market is still characterized by strong technological fragmentation, although recently there have been multiple efforts and solutions aimed at introducing a certain degree of standardization. They relate both to the wireless communication technology used in lighting products (e.g. the adoption of the Bluetooth Mesh standard), and to the methods of managing the data generated by these devices (e.g. the announcement of the D4i certification program by the DALI Alliance organization). Without further intensification of these efforts, the smart lighting market development will remain hindered, and the potential of smart solutions will remain untapped.

### **Financial barriers**

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

### **Lack of knowledge and trust**

Before the emergence of smart lighting technologies, the lighting industry had been functioning in accordance with decades-long paradigms. Wireless control solutions introduce a number of significant changes, both from the perspective of technological processes and business activities. At the same time, they require all market participants to adopt completely new solutions and tools. And while they are often easier to use than in the case of traditional control systems, the need to switch to a completely new technology and abandon old habits can cause natural reluctance among some of the industry stakeholders. This might be further strengthened by the fact that the first generations of smart lighting solutions failed to meet the high expectations of lighting industry professionals. In addition to the already-mentioned problem of lack of standardization, many of the products did not match traditional cable solutions in terms of reliability or scalability in commercial applications. This resulted in the skepticism of a certain part of the market towards wireless solutions. Combined with the lack of adequate knowledge relating to the use of the latest technological achievements, this might constitute a significant barrier to the widespread adoption of smart lighting technologies.

### **Global COVID-19 pandemic**

With the passage of time, the COVID-19 pandemic has firmly established itself on the global economic landscape, with a range of consequences affecting almost all branches of the economy. To some extent, we have already learned to live in this new reality, and the pandemic does not occupy as much space in public discussion anymore, but the problem can hardly be considered resolved. Successive mutations of the virus show that the effects of the COVID-19 pandemic cannot be ignored in forecasts relating to the future development of any industry, including the segment of smart lighting. And while the most severe economic

impacts of the pandemic in its early stages - such as widespread lockdown and tough restrictions on conducting business activity - no longer appear to be threatening the growth of innovative industries, we continue to face consequences that directly impact high-tech sectors. They still face supply chain disruptions that have been observed since the beginning of the pandemic. Over the past months, many technology companies have been forced to reduce production or even shut down entire facilities due to the shortage of semiconductors that are today used in nearly every area of the economy - from industrial manufacturing and the automotive industry to the entire broad electronics sector, the telecommunications industry and many others. Considering the fact that semiconductors are also necessary in the production of components used in wireless lighting control systems, it should be noted that a prolonged state of the pandemic may have a potentially negative impact on the pace of development of the smart lighting market.

### 3.3 Bluetooth Mesh – adoption of the standard

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

- Almost five years after the adoption, no security vulnerabilities have been detected in the Bluetooth Mesh protocol. The solid architecture of the standard has been verified and confirmed by independent scientific centers.
- There are currently approximately 1,400 qualified Bluetooth Mesh-compliant devices and solutions available. The list includes devices from all product categories, including lighting components.
- A significant milestone in the adoption of Bluetooth Mesh technology was achieved in 2020 with the emergence of projects of a scale that for many years remained unachievable for wireless communication standards previously used in lighting systems. Case study materials documenting the implementation of the above-mentioned projects demonstrate the outstanding performance and unprecedented scalability of Bluetooth Mesh technology in lighting control applications.
- Device manufacturers point out that the quality of the standard is very high. They are often surprised with the wide range of issues addressed by the Bluetooth Mesh technology. Such a wide scope and maturity of version 1.0 were not expected by the market which traditionally assumed that the first version of the standard would be incomplete and of low quality. As a result, manufacturers were not prepared for rapid implementation of the Bluetooth Mesh technology in their products.
- Bluetooth Mesh is a sophisticated protocol with a high degree of complexity. This results from the complex nature of the problems addressed by the standard, such as scalability or security. These problems cannot be solved by simple mechanisms. On the other hand, the high degree of complexity means that only a small group of firmware providers (including Silvair) is able to provide high-quality qualified Bluetooth Mesh firmware today. Investment in the implementation of the Bluetooth Mesh technology also exceeds the capabilities of those manufacturers who have so far implemented communication firmware on their own. Such a situation is favorable for Silvair, as it opens a wider and more durable market for firmware solutions offered by the Group. This business model has been validated by multiple license agreements concluded so far by the Group's companies.
- Competitors often used to emphasize that Silvair is the only provider of firmware compliant with the Bluetooth Mesh standard. This fact was used by them to argue that Bluetooth Mesh is not an open standard, but a de facto proprietary Silvair solution. However, this situation began to change with the advent of the first Bluetooth Mesh compliant devices that are not directly based on the Silvair firmware. This is a good sign for the market, emphasizing the idea of openness and interoperability. Paradoxically, this also results in increased demand for Silvair products, as greater market diversification among firmware providers results in increased popularity and interest in the Bluetooth Mesh standard itself.
- Entities offering products based on the Bluetooth Mesh technology in a commercially usable form include:

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

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

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

## 3.4 Silvair's cooperation with standardization bodies

### Bluetooth SIG

As part of the Bluetooth SIG organization, we are fully committed to maintaining and developing the Bluetooth Mesh standard, and directing it towards professional / commercial solutions. Our work within the Bluetooth SIG is also focused on improving the quality of documentation, which reduces entry barriers for new entities. In February 2020, Szymon Słupik was appointed by the Bluetooth SIG Board of Directors as the chair of the Bluetooth Mesh working group - for the fourth consecutive term. The Mesh working group remains the most active among all working groups operating in the Bluetooth SIG, which has been confirmed by multiple awards granted to it within the organization. This activity directly translates to the pace of the standard development and the quality of solutions contained in it.

### DALI Alliance

DALI Alliance (previously known as Digital Illumination Interface Alliance - DiiA) is an organization supervising the DALI (and DALI-2) standard, which brings together all of the world's leading professional lighting manufacturers. DALI is a mature wired standard that is currently being developed towards integration with wireless technologies. An important milestone was the establishment of cooperation with the Bluetooth SIG and the launch - under DALI Alliance - of the Bluetooth Mesh DALI Gateway project chaired by Silvair. In April 2021, DALI Alliance published the first version of the specification "Part 341 - Bluetooth Mesh to DALI Gateway" which standardizes design assumptions for a gateway enabling remote control of luminaires that are compliant with the DALI D4i certification program using wireless solutions compliant with the Bluetooth Mesh. This is another important step strengthening the cooperation between the DALI Alliance and the Bluetooth Mesh ecosystem. As part of our cooperation with DALI Alliance, our main goal is to make Bluetooth Mesh a fully supported and recommended standard extending the wired DALI system with the possibility of wireless operation. The Bluetooth Mesh DALI Gateway standard is supplemented by the Book 20 standard developed under the Zhaga organization. Zhaga standardizes the physical sizes of modules and connectors used in lighting systems. The Book 20 standard specifies a standard expansion socket that can be used by lighting fixtures installed inside buildings. The socket supports the DALI protocol. In practice, this means that wireless sensors and sensor-controllers (in particular those manufactured under the Silvair license) can be easily installed by installers in any lighting fixtures, without the need for manufacturers' involvement / interference.

### ANSI C137

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

report energy consumption becomes an effective requirement, which significantly increases the demand for solutions offered by Silvair..

## DLC

DLC (Design Lights Consortium) is an organization that brings together the programs promoting the increase of energy efficiency among energy suppliers in North America. DLC publishes the Networked Lighting Controls specification (NLC) which is the basis for including systems that meet specific energy requirements in the official Qualified Product List (QPL). The latest version of the specification – NLC5 – contains requirements for detailed energy consumption reporting by lighting installations. These requirements will be made consistent with the requirements of the ANSI C137.5 standard following its ratification this year. Systems included in the QPL list are entitled to a simplified path to obtaining a grant for their purchase and implementation. Until now, only proprietary systems from individual suppliers could be found on the QPL list. Over the last years, Silvair has been working closely with DLC to enable NLC qualification for components from different manufacturers that make up a complete system. First, we obtained DLC's approval for using the Silvair brand as a brand for a system that any component manufacturer can refer to as long as a given component is based on the Silvair firmware. This agreement meant the emergence of a fast track for obtaining DLC QPL qualification for our partners. The first applications for DLC qualification have already been processed, as a result of which Silvair's partners - McWong, Linmore LED and Aleo Lighting - have been included in the official QPL list.

As a consequence of the long efforts and the introduction of appropriate technological solutions, at the end of 2021 the Silvair brand obtained full DLC NLC5 certification as the first system consisting of components from many different manufacturers. This symbolic breakthrough and fulfillment of the promise of global interoperability represents a very significant achievement both for the Bluetooth Mesh standard and for the Group and partners using its technology solutions. Thanks to the DLC NLC5 certification, entities implementing lighting projects based on Silvair technology can apply for significant rebates related to improving the energy efficiency of buildings, which strongly increases the attractiveness of the components and systems offered in the market by the Group's partners. This should translate into more projects being implemented with the use of devices based on Silvair technology.

## OneDM

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

### 3.5 Risks related to our business

The Silvair Group is exposed to a number of risks that may exert an unfavorable effect on its operations, financial and operating standing, as well as its brands and reputation. On a regular basis, the Board of Directors reviews the market environment and risk factors to which the Silvair Group is exposed. New projects and contemplated major transactions are subject to thorough scrutiny. If any regulatory amendments are enacted, the Group's companies adjust their business accordingly. The following are the primary risks that, if materialized, may exert a significant impact on the Group's business. Besides the factors mentioned in this section, the Group is also exposed to financial risks described in Note 33 of the Silvair Group's interim condensed consolidated financial statements for the first half of 2022.

#### **Military operations in Ukraine**

The Russian military invasion in Ukraine, which began on 24 February 2022 and has been continued uninterrupted until the publication of this report, has shattered the postwar order on the global political and economic scene. The regular warfare conducted in the continental Europe has unleashed a wave of powerful global consequences, which in the medium to long term could potentially affect every sector of the economy, not excluding the young wireless lighting control segment. There are so many associated factors which may adversely affect the further development of the smart lighting industry and the Group's activities as a result of the crisis situation across Poland's eastern border that it is impossible to list them all here. Many of them probably cannot be predicted today, just as the further development of events in Ukraine remains unpredictable.

The worst-case scenario, which at present seems unlikely but which cannot be completely ruled out, is a further escalation of military action and a potential spillover of the conflict beyond the borders of the Ukrainian state. Taking into account the geographical location of Poland, this could be a direct threat to the Group's further operations in the form in which it has developed its business so far. This would be an unprecedented situation in the modern history of Poland, and as of the date of publication of this report, there are no grounds for fears that this worst-case scenario could materialize. However, there are also no indications that the war in Ukraine could end quickly, and the longer it lasts, the more painful the consequences will be for both the Polish and global economy. In particular, it is worth mentioning the unprecedented sanctions that have been imposed on Russia as a consequence of the armed attack on Ukraine. So far, Russia has been an important exporter of numerous raw materials, including energy resources, so the progressive isolation of the Russian economy will not be without impact on the entire global economy, especially in view of the declarations of subsequent countries to completely renounce Russian gas and oil in the near future. On the other hand, Ukraine - called the granary of Europe - has traditionally been one of the largest producers and exporters of grains. Limited supplies from a war-torn country is already driving the price of many basic food products up. The potential consequences of this could go very far - including the escalation of the hunger problem in less developed countries and social unrest in many parts of the world.

All of this means that it could be many years before the global economy returns to the relative stability it was in before the outbreak of war in Ukraine. This turmoil will not be without impact on the development potential of the smart lighting control segment, and thus on the Group's business operations. In times of crisis, when meeting basic needs becomes a challenge, resources are directed to where they are most needed. There is less space for innovation, research and sustainable development. Issues such as environmental protection and energy efficiency of buildings are relegated to the background in the face of threats and challenges that may arise as a consequence of the war in Ukraine. This situation could slow down



the adoption of wireless solutions in the lighting control segment. Even if major turmoil in the global economy can be avoided, entities involved in the development of smart lighting technology might face problems relating to the further disruption of supply chains that were already severely impacted by the global COVID-19 pandemic.

#### **Risk associated with the COVID-19 coronavirus pandemic**

The COVID-19 coronavirus pandemic, which has been spreading globally since the beginning of 2020, carries a number of significant risks not only from the healthcare perspective, but also from the economic and social perspective. Still in a relatively early stage of commercialization, the smart lighting segment is highly sensitive to turbulence in the global economy. Its further dynamic development requires high activity and commitment from multiple industry stakeholders - manufacturers, distributors, industry organizations, research bodies, etc. In the face of the severe consequences of the pandemic – such as widespread lockdown, business restrictions and deteriorating macroeconomic indicators – this activity may be suppressed and the involved entities may have to allocate their resources elsewhere.

Further development of the market may also be adversely affected by disruptions in the supply chains, which have been observed in various sectors of the economy since the beginning of the pandemic. Prolonged problems in the semiconductor market may directly hit the smart lighting segment, causing a shortage of components used in wireless lighting control systems.

The restrictions introduced in years 2020 - 2022 in the United States and Europe also caused a number of difficulties with regard to the implementation of modernization projects. This was due to many factors - from lockdown preventing the implementation of some projects, through limitations in investment budgets of commercial space owners, to staff shortages in installation companies caused by illness or quarantine. Considering that the implementation of more and more ambitious commercial projects is key to building appropriate awareness among entities in the lighting industry, there is a concern that the protracted state of the pandemic may slow down the pace of commercialization of smart lighting technology.

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

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

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

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

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

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

### **Risk associated with the dissemination of the Bluetooth mesh technology**

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

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

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

### **Risk of product concentration**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 14 December 2021, Silvair sp. z o.o. – acting also as a subcontractor of Silvair, Inc. in the scope of concluded commercial contracts – executed a third party liability insurance contract with AVIVA Towarzystwo Ubezpieczeniowe S.A. The insurance covers third party liability in respect of personal and property damage caused in connection with the possession and use of assets as well as the business run by Silvair sp. z o.o., as specified in the insurance contract, including damage caused by a product or service (including that caused by a rendered and delivered service) and presence of third parties on the premises in connection with the performance of insured professional activities, and in respect of damage resulting from shortcomings in the performance of professional activities in connection with the provision of services specified in the insurance contract. However, Silvair, Inc. does not have a direct insurance protection that would cover potential damage caused by such a company through its direct operations.

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

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

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

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

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

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

### **Risk related to the economic and political situation**

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

### **Foreign exchange risk**

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

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

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

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

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

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

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

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

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

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

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

### **Risk of unexpected trends**

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

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

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

## **4. Financial standing of the Silvair Group**

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

The interim condensed consolidated financial statements of the Group cover the period of 6 months ended on 30 June 2022 and have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements have been prepared in accordance with the historical cost principle, except for financial assets measured at fair value through financial result or other comprehensive income, financial assets measured at amortized cost, financial liabilities measured at fair value, and financial assets measured at amortized cost.

The interim condensed consolidated financial statements do not contain all the information that is disclosed in the annual consolidated financial statements prepared in accordance with IFRS. Therefore, they should be read together with the Group's consolidated financial statements for 2021 which were made public on 26 April 2022.

## 4.2 Going concern assumption

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

The first half of 2022 brought a further expected increase of the most important indicators reflecting the level of adoption of the Group's solutions by the lighting industry. The Group continues to perceive the number of devices installed using Silvair Commissioning tools as the most important of these indicators, since it is the most accurate representation of the actual use of smart components with Silvair Firmware in commercial lighting projects. Important milestones achieved after the end of the reporting period - almost 10,000 devices installed in a single month, over 100,000 devices installed since the beginning of commercialization, and almost 200,000 devices manufactured (with the activation fee already paid) since the beginning of commercialization - show that the dynamic upward trend does not seem to be threatened today and it will certainly be continued in the coming quarters and years.

Based on the above-mentioned indicators and numerous signals coming from the market (including declarations of partners regarding future production volumes, participation of partners in large tenders for mass modernization of lighting infrastructures, positive reception of Silvair technology at LightFair International, and many others), it can be assumed that the Silvair Group is today on the threshold of a completely new chapter in its history. A significant risk and, at the same time, the greatest challenge for the coming quarters will be the appropriate scaling of the business in order to smoothly meet the growing demand for Silvair's products. This challenge should be considered both from the point of view of the scalability of the business itself and from the point of view of technological capacity in terms of supporting the expected dynamic increase in sales. It is necessary to undertake appropriate preparations in the field of human resources and logistics (e.g. due to the need to ensure an appropriate level of customer support for partners amid a growing number of inquiries and interactions), as well as in the product field. It is also necessary to ensure failure-free operation of the key product infrastructure in the event of a rapid increase in the number of active users and the volume of processed data. Therefore, the Group has already initiated a number of activities aimed at providing installers and partners with a range of diagnostic tools, which will allow for quick resolution of potential installation problems without the need to involve the Group's product and support teams.



It is also worth noting that the Group reports dynamic business growth despite the war in Ukraine and the continuing adverse effects of the COVID-19 pandemic. In the context of the effects of the pandemic itself, the biggest challenge today is the availability of semiconductors used on a large scale in many areas of the economy, including the production of components for wireless lighting control systems. In the context of the war in Ukraine, although the Group does not sell its products to the Russian market, the escalation of geopolitical tensions may have an indirect negative impact on the pace of the Group's business development. At the same time, the high energy efficiency of Silvair solutions becomes particularly important in times of unprecedented increase in energy prices, and the expected long-term nature of this increase may lead to a growth of interest in the Group's products.

In the context of the above-mentioned factors, the prospects for the development of the Group's business in the coming years seem very promising. This also has a positive effect on the investment climate around the Group and the process of raising capital to finance its further operations. On 9 June 2022, the Company's Board of Directors adopted a resolution approving incurring liabilities up to a total nominal amount of USD 3.0 million in the form of an issue of debt securities convertible into common shares of the Company's new issue (Convertible Promissory Notes). As part of this issue, by the date of publication of this report, the Company has issued Convertible Securities in the total amount of USD 1.25 million.

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

### Interim consolidated statement of profit or loss of the Group

Interim consolidated profit and loss account (amounts in USD thousand)	01.01.2022 - 30.06.2022	01.01.2021 - 30.06.2021	01.04.2022 - 30.06.2022	01.04.2021 - 30.06.2021
Revenue	515	266	255	124
Cost of sales	551	541	268	272
Gross sales result	-36	-275	-13	-148
Selling and distribution expenses	274	159	142	38
General and administrative expenses	714	722	340	415
Other operating income	41	38	16	11
Other operating expenses	9	14	8	1
Losses due to expected credit losses	15	6	15	6
Operating result	-1 007	-1 138	-502	-597
Financial income	-	-	-	506
Financial costs	883	248	461	52
Result before tax	-1 890	-1 386	-963	-143
Income tax	-35	198	-12	215
Net profit/(loss) for the period	-1 855	-1 584	-951	-358
Profit/(loss) attributable to:				
shareholders of the parent company	-1 855	-1 584	-951	-358
non-controlling interest	-	-	-	-

As in 2021, the Group worked intensively on the development of new products, their promotion, creating sales markets, as well as acquiring customers. In the first half of 2022, the Group intensively developed cooperation both with clients acquired in previous years and with clients acquired in the current reporting period. These activities translated into a dynamic increase in revenues to the level of USD 515 thousand, which is almost a twofold increase in revenues compared to the same period of the previous year.

In the first half of 2022, the Group incurred general and administrative expenses in the amount of USD 714 thousand, and selling and distribution expenses in the amount of USD 274 thousand. The total value of combined general and administrative expenses and selling and distribution expenses incurred in the first half of 2022 was by USD 107 thousand higher than in the first half of 2021. The increase in selling and

distribution expenses by USD 115 thousand compared to the same period of the previous year is the result of the resumption of the organization of trade fairs and numerous meetings with customers.

In the first half of 2022, the Group did not generate financial income. The significant increase in foreign exchange rates contributed to the surplus of negative exchange rate differences over positive ones. The high value of financial costs is also influenced by the interest on bonds convertible into shares. In the first half of 2022, financial costs were higher by USD 635 thousand compared to the first half of 2021.

## Financial results by the Group's operating segments

Segment type (amounts in USD thousand)	1 January 2022 - 30 June 2022		
	Lighting control	Items not allocated to segments	Total
<b>Revenues and expenses</b>			
Sales to external customers	515	-	515
Inter-segment sales	-	-	-
Cost of sales	551	-	551
Income and expenses (operating and other operating)	-17	-954	-971
<b>EBIT</b>	<b>-53</b>	<b>-954</b>	<b>-1 007</b>
Net financial income (costs)	-	-883	-883
Share in profits of associates	-	-	-
<b>Gross profit</b>	<b>-53</b>	<b>-1 837</b>	<b>-1 890</b>
Income tax (current and deferred)	-	-35	-35
<b>Net profit for the reporting period</b>	<b>-53</b>	<b>-1 802</b>	<b>-1 855</b>
<b>Assets</b>			
Costs of development work (carrying amount of the assets)	9 106	554	9 660
Receivables	271	-	271
Unallocated assets	-	1 748	1 748
<b>Total assets</b>			<b>11 679</b>
<b>Liabilities</b>			
Financial liabilities	-	3 300	3 300
Liabilities from contracts with customers	204	-	204
Unallocated liabilities	-	1 027	1 027
<b>Total liabilities</b>			<b>4 531</b>
Other information	-	-	-
Depreciation and amortization	551	142	693

Segment type (amounts in USD thousand)	1 January 2021 - 30 June 2021		
	Lighting control	Items not allocated to segments	Total
<b>Revenues and expenses</b>			
Sales to external customers	266	-	266
Inter-segment sales	-	-	-
Cost of sales	541	-	541
Income and expenses (operating and other operating)	-4	-859	-863
<b>EBIT</b>	<b>-279</b>	<b>-859</b>	<b>-1 138</b>
Net financial income (costs)	-	-248	-248
Share in profits of associates	-	-	-
<b>Gross profit</b>	<b>-279</b>	<b>-1 107</b>	<b>-1 386</b>
Income tax (current and deferred)	-	198	198
<b>Net profit for the reporting period</b>	<b>-279</b>	<b>-1 305</b>	<b>-1 584</b>
<b>Assets</b>			
Costs of development work	9 797	1 120	10 917
Receivables	156	-	156
Unallocated assets	-	1 958	1 958
<b>Total assets</b>			<b>13 031</b>
<b>Liabilities</b>			
Financial liabilities	-	4 080	4 080
Liabilities from contracts with customers	155	-	155
Unallocated liabilities	-	1 355	1 355
<b>Total liabilities</b>			<b>5 590</b>
Other information	-	-	-
Depreciation and amortization	541	150	691

## Interim consolidated statement of financial position of the Group

(amounts in USD thousand)	30 June 2022	31 December 2021	30 June 2021
<b>Non-current assets</b>	<b>10 233</b>	<b>11 019</b>	<b>11 419</b>
Capitalized expenditures on development work	9 660	10 430	10 917
Computer software	55	60	65
Property, plant and equipment	14	13	17
Right-of-use assets	36	83	35
Financial assets	6	6	7
Deferred tax assets	462	427	378
<b>Current assets</b>	<b>1 446</b>	<b>1 622</b>	<b>1 612</b>
Inventory	3	2	5
Trade receivables and other receivables	366	359	249
Cash and cash equivalents	1 077	1 261	1 358
<b>Total assets</b>	<b>11 679</b>	<b>12 641</b>	<b>13 031</b>

(amounts in USD thousand)	30 June 2022	31 December 2021	30 June 2021
<b>Equity</b>	<b>7 148</b>	<b>9 006</b>	<b>7 441</b>
<b>Equity attributable to the shareholders of the parent company</b>	<b>7 148</b>	<b>9 006</b>	<b>7 441</b>
Share capital	1 574	1 558	1 350
Capital from revaluation of options	506	537	576
Share premium account	28 106	27 937	24 861
Other capital	208	365	554
Retained earnings	-23 246	-21 391	-19 900
<b>Equity attributable to non-controlling entities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-current liabilities</b>	<b>1 262</b>	<b>316</b>	<b>2 562</b>
Deferred tax liabilities	14	16	18
Liabilities under bonds convertible to shares	1 003	-	2 192
Prepayments and accruals on account of grants	245	300	352
<b>Current liabilities</b>	<b>3 269</b>	<b>3 319</b>	<b>3 028</b>
Trade liabilities and other current liabilities	313	353	431
Liabilities from contracts with customers	204	183	155
Lease liabilities	39	83	35
Liabilities on bonds convertible to shares	2 297	2 245	1 888
Other short-term provisions	49	50	87
Prepayments and accruals	367	405	432
<b>Equity and liabilities</b>	<b>11 679</b>	<b>12 641</b>	<b>13 031</b>

In the reporting period, the Group continued investments in development works, which amounted to USD 828 thousand. Expenditure on development works was financed from own funds. As at 30 June 2022, the group's assets amounted to USD 11,679 thousand. The balance sheet total decreased in the first half of 2022 compared to the first half of 2021 by USD 1,352 thousand. The decrease in total assets as at the reporting date compared to the first half of 2021 is mainly due to the decrease in the value of the item Capitalized expenditures on development work by USD 1,257 thousand and a decrease in cash by USD 281 thousand compared to 30 June 2021.

The Group's assets are mainly financed with equity and bonds convertible into shares.

The return on equity (ROE) amounted to -26%, compared to -21% in the comparable period, while the return on assets (ROA) reached -16%, compared to -14% in the comparable period. The ROE and ROA levels were compared to the levels as at 30 June 2021.

The current liquidity ratio, calculated as the ratio of total current assets to total current liabilities, in the analyzed half-year period amounted to 0.44, down from the level of 0.53. The quick liquidity ratio (current assets were adjusted by the level of inventories and prepayments and accruals) amounted to 0.43, compared to 0.53 in the previous period. The financial liquidity ratios were compared to the results as at 30 June 2021.

### Consolidated cash flows of the Group

The Group recorded a decrease in cash by USD 184 thousand compared to the beginning of the reporting period. Positive cash flows from financial activities in the amount of USD 933 thousand, mainly from the issue of bonds convertible into shares, allowed for covering negative cash flows from investing activities (mainly expenditure on development works) in the amount of USD 835 thousand and partial coverage of negative cash flows from operating activities. As part of its financial activities in the first half of 2022, the company recorded an increase in proceeds from the issue of shares at the level of USD 16 thousand (increase by USD 13 thousand compared to the comparative period). The Group also obtained proceeds from the issue of debt securities in the amount of USD 1,000 thousand, the value of which in the corresponding period of the previous year was 0.

(amounts in USD thousand)	1 January 2022 - 30 June 2022	1 January 2021 - 30 June 2021
Profit (loss) before tax	-1 890	-1 386
Adjustments for:		
Depreciation and amortization	693	691
Foreign exchange gains (losses)	799	123
Interest	94	111
Profit (loss) from investing activities	-	-
Movement in provisions	-1	42
Movement in inventory	-1	-
Movement in receivables	-28	-53
Movement in current liabilities, except for loans and borrowings	-14	-132
Tax paid	-1	-1
Movement in prepayments and accruals	-71	-34
Other adjustments resulting from operating activity	138	139
Net cash from operating activities	-282	-500



Disposal of intangible assets and property, plant and equipment	-	-
Purchase of property, plant and equipment	7	4
Expenditures incurred for development work and purchase of intangible assets	828	917
<b>Net cash from investing activities</b>	<b>-835</b>	<b>-921</b>
Net proceeds from issuing shares	16	3
Loans and borrowings drawn	-	-
Proceeds from the issue of debt securities	1 000	-
Repayment of loans and borrowings	7	-
Repayment of lease liabilities	37	29
Interest paid	39	14
<b>Net cash from financing activities</b>	<b>933</b>	<b>-40</b>
<b>Net cash flows</b>	<b>-184</b>	<b>-1 461</b>
<b>Movement in cash</b>	<b>-184</b>	<b>-1 461</b>
Movement in cash on account of foreign exchange differences	-	-
<b>Cash at the beginning of the period</b>	<b>1 261</b>	<b>2 819</b>
<b>Cash at the end of the period</b>	<b>1 077</b>	<b>1 358</b>

## Forecasts of the Silvair Group's results

The Silvair Group did not publish any forecasts of its results for 2022.

## 4.4 Management of financial resources

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

On 9 June 2022, the Board of Directors adopted a resolution approving incurring liabilities up to a total nominal amount of USD 3.0 million in the form of an issue of debt securities convertible into common shares of the Company's new issue (Convertible Promissory Notes). As part of this issue, by the date of publication of this report, the Company has issued Convertible Securities in the total amount of USD 1.25 million.

Within the total maximum value of the issue approved by the Board of Directors, the issues of Convertible Securities are to be executed as part of private placement without obligation to register under the United States Securities Act of 1933 ("**United States Securities Act**"), as amended, and without obligation to prepare a prospectus or other offering document, in accordance with the Company's current capital needs. The resolution of the Company's Board of Directors does not specify a schedule or deadline for issuing the Convertible Securities.

Pursuant to the decision of the Company's Board of Directors, the Convertible Securities bear interest at a fixed rate. Holders of Convertible Securities may request their redemption two years after their issue ("**Redemption Date**"). In addition, with the consent of the holders of the Convertible Securities representing the majority of the outstanding par value of Convertible Securities, the Company may, on the terms set out in the terms of the Convertible Securities, repay its liabilities under the Convertible Securities prior to their Redemption Date. Notwithstanding the foregoing, Convertible Securities are due in cases set out in the terms of Convertible Securities, including without limitation filing for bankruptcy of the Company or for any safeguard under the federal bankruptcy law and the appointment of a commissioner or trustee to manage the assets of the Company. Convertible Securities will be converted into newly issued common stock of the Company at a fixed price of USD 1.50 ("**Conversion Price**"). In particular, as a result of the Conversion, the Company will issue – to the holders of Convertible Securities – common stock of the Company in the amount being the quotient of the Conversion Amount (as defined below) and the Conversion Price.

The Terms of the Convertible Securities provide for a mechanism for conversion of claims arising from the Convertible Securities, including a claim for payment of the par value of the Convertible Securities and the accrued unpaid interest ("**Conversion Amount**"), into common stock of the Company's new issue in the event of: (i) change of control over the Company 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**"), or (ii) on 1 June 2024, whereby the conversion will not lead to the Company's issue, within the 12 months preceding the issue, of: (a) the number of shares exceeding the number of common shares remaining to be issued within the Company's authorized capital established in accordance with the Company's Articles of Association in force at the time, or (b) 20% of the number of the Company's shares admitted to trading on the regulated market run by the Warsaw Stock Exchange as at the day 12 months before the conversion, depending which of these numbers of shares will be lower. In the event of a Change of Control, the Company will issue – to the owners of the Convertible Securities – the Company's common shares in the number resulting from dividing the Conversion Amount by the price per a common share of the Company payable in connection with the Change of Control (in the case of a Change of Control).

In 2013, a subsidiary received a loan from the Polish Agency for Enterprise Development (PARP) in order to finance the purchase of intangible assets and the costs of completed development works. The loan repayment date was 25 January 2021.

Since 25 February 2020, the Group did not regularly repay the installments of the investment loan from the Polish Agency for Enterprise Development (PARP) which was contracted by Sway in 2013. The Group requested PARP to postpone repayment of these installments due to the effects of the COVID19 pandemic. On behalf of the borrower, PARP applied to the Ministry of Funds and Regional Policy for consent to the redemption. The principal and interest parts of the loan were repaid on 30 December 2021. The Group also requested PARP to waive the accrued statutory interest resulting from a delay in repayment. Ultimately, the Group was refused such possibility. On 29 March 2022, the subsidiary Sway repaid the statutory interest accrued by PARP and thus settled the entire liability under the loan granted by PARP.

### **State aid**

In the reporting period, the Group did not use any state aid..

### **Transactions between entities with capital ties**

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

## 4.5 Description of the structure of assets and liabilities, including from the perspective of the Issuer's Group's liquidity

Structure of the Group's assets	30 June 2022	31 December 2021	30 June 2021
<b>Non-current assets</b>	<b>87,62%</b>	<b>87,17%</b>	<b>87,63%</b>
Capitalized expenditures on development work	82,71%	82,51%	83,78%
Computer software	0,47%	0,47%	0,50%
Property, plant and equipment	0,12%	0,10%	0,13%
Right-of-use assets	0,31%	0,66%	0,27%
Financial assets	0,05%	0,05%	0,05%
Deferred tax assets	3,96%	3,38%	2,90%
<b>Current assets</b>	<b>12,38%</b>	<b>12,83%</b>	<b>12,37%</b>
Inventory	0,03%	0,02%	0,04%
Trade receivables and other receivables	3,13%	2,84%	1,91%
Cash and cash equivalents	9,22%	9,97%	10,42%
<b>Total assets</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>

Structure of the Group's liabilities	30 June 2022	31 December 2021	30 June 2021
<b>Equity</b>	<b>61,20%</b>	<b>71,24%</b>	<b>57,10%</b>
Equity attributable to the shareholders of the parent company	61,20%	71,24%	57,10%
Minority interest	-	-	-
<b>Non-current liabilities</b>	<b>10,81%</b>	<b>2,50%</b>	<b>19,66%</b>
<b>Current liabilities</b>	<b>27,99%</b>	<b>26,26%</b>	<b>23,24%</b>
<b>Equity and liabilities</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>

As at 30 June 2022, the value of the Group's non-current assets comprised mainly expenditures on development work. In the current reporting period, there was an increase in the share of short-term receivables and a decrease in the share of cash in current assets, compared to 30 June 2021. Due to obtaining further external financing in the form of bonds convertible to shares in the first half of 2022, the share of external financing increased compared to 31 December 2021 to nearly 40%.

# **5. Shares and shareholding structure**

## 5.1 Shareholding structure of Silvair, Inc.

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

### Share capital as at 30 June 2022

The capital of Silvair, Inc. is divided into 15,740,645 shares. The par value of one share is USD 0.1.

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	14 780 645	1 478	27 782	26 304
Preferred Stock	960 000	96	125	29
<b>Total</b>	<b>15 740 645</b>	<b>1 574</b>	<b>27 907</b>	<b>26 333</b>

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

- Szymon Stupik
- Rafał Han
- Adam Gembala
- Christopher Morawski
- Krzysztof Januszkiewicz

Share capital ownership structure	Number of shares	% of shares	Number of votes <sup>(1)</sup>	% of votes
Rafał Han	1 923 668	12,22	3 555 668	17,31
Szymon Stupik	1 902 340	12,09	3 547 500	17,27
Adam Gembala	1 018 760	6,47	2 145 520	10,45
Chris Morawski	1 836 429	11,67	1 836 429	8,94
Krzysztof Januszkiewicz	1 677 324	10,66	1 677 324	8,17
Other shareholders holding less than 5% of shares	7 382 124	46,89	7 778 204	37,86
<b>Total</b>	<b>15 740 645</b>	<b>100,00</b>	<b>20 540 645</b>	<b>100,00</b>

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

## Information on transactions concerning shares in Silvair, Inc. made by members of management

On 10 February and 15 July 2022, Silvair, Inc. received – from Rafał Han, a member of the Board of Directors and the Company's CEO – a notification 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. 2/2022 and 19/2022.

On the following days: 8, 13, 15, 20, 22, 30 June, 15, 28 July, and 4, 16, 23 August 2022, Silvair, Inc. received – from Christopher Morawski, a member of the Company's Board of Directors – a notification 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 the following Current Reports, respectively: 8/2022, 11/2022, 13/2022, 15/2022, 16/2022, 18/2022, 19/2022, 20/2022, 21/2022, 22/2022, 24/2022.

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

On 15 June 2022, Silvair, Inc. informed that it had received - from Krzysztof Januszkiewicz – a notification on the change of share in the total number of votes at the General Meeting. The content of the notification was published by the Company in Current Report no. 12/2022.

## 5.2 Silvair, Inc. on the Warsaw Stock Exchange

The IPO of Silvair, Inc. was held on the Warsaw Stock Exchange on 26 July 2018. The Company's shares are listed on the parallel market in the continuous trading system under the abbreviated name "SILVAIR-REGS" and the ticker "SVRS".

### Basic information about the stock as at the date of preparation of this report:

Name	Silvair, Inc.
Short name	SILVAIR-REGS
Ticker	SVRS
ISIN	USU827061099
First listing	26.07.2018
Number of shares	15 787 263
Segment	Small company (capitalization in the range of EUR 5-50 million)
Sector groups	Information technology
Indices	InvestorMS, WIG-INFORMATYKA, WIG

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

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

## 5.3 Other information on the shares and shareholders

Shares of the Issuer or rights thereto held by members of management or supervisory bodies of the Issuer.

First and last name	Number of shares as at 30 June 2022	% of shares	Number of votes	% of votes
Rafał Han	1 923 668	12,22	3 555 668	17,31
Szymon Stupik	1 902 340	12,09	3 547 500	17,27
Adam Gembala	1 018 760	6,47	2 145 520	10,45
Chris Morawski	1 836 429	11,67	1 836 429	8,94

First and last name	Number of shares as at 28 September 2022	% of shares	Number of votes	% of votes
Rafał Han	1 930 465	12,23	3 562 465	17,30
Szymon Stupik	1 902 340	12,05	3 547 500	17,23
Adam Gembala	1 018 760	6,45	2 145 520	10,42
Chris Morawski	1 845 321	11,69	1 845 321	8,96

First and last name	Number of shares as at 1 January 2022	Change	Number of shares as at 28 September 2022
Rafał Han	1 914 455	16 010	1 930 465
Szymon Stupik	1 902 340	-	1 902 340
Adam Gembala	1 018 760	-	1 018 760
Chris Morawski	1 781 888	63 433	1 845 321

## 5.4 Dividend policy

Due to the significant capital needs related mainly to the intended development and the related need to engage new funds, the Group plans mainly to reinvest a significant part of the profits expected to be generated in the future. Accordingly, in the coming years, it does not expect to pay any dividends to its shareholders. According to the laws of the State of Delaware under which the Issuer operates, the Board of Directors makes decisions on the payment and amounts of dividends at its discretion.



## 5.5 Corporate governance

### Corporate governance principles applicable to Silvair, Inc.

In the first half of 2022, Silvair, Inc. was subject to the corporate governance rules described in the “Best Practice for WSE Listed Companies 2021”. Information resulting from the corporate governance principles adopted by the Company are published on the following website:

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

### Corporate governance principles that were not applied by the Issuer in H1, 2022

In the first half of 2022, Silvair, Inc. chose not to apply 18 rules contained in the “Best Practice for WSE Listed Companies 2021”, namely: 1.3., 1.3.1, 1.3.2., 1.4., 1.4.1., 1.4.2., 2.1., 2.11.6., 3.6., 4.5., 4.8., 4.9.1., 4.12., 5.6., 5.7., 6.3., 6.4., 6.5.

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

- **Disclosure policy and investor communications**

1.3. Companies integrate ESG factors in their business strategy, including in particular:

*This principle is not applied.*

Company's explanation: Due to the nature and scale of the Company's operations, its business strategy is limited to issues of key importance for the operation and development of the Company.

1.3.1. environmental factors, including measures and risks relating to climate change and sustainable development.

*This principle is not applied.*

Company's explanation: Due to the subject of the Company's activities, the potential impact of the Company's operation on environmental issues is positive, as the use of technological solutions provided by the Company enables, among others, reduction of electricity consumption and space maintenance costs. However, these effects are difficult to measure, and therefore their evaluation would be excessively costly for the Company due to its scale of operations.

1.3.2. social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations.

*This principle is not applied.*

Company's explanation: The Company, however, complies with all generally applicable provisions of law, in particular the provisions of labor law and other provisions prohibiting any discrimination, regardless of its cause.

1.4. To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others:

*This principle is not applied.*

Company's explanation: The principle is not fully applied. In order to properly communicate with stakeholders, the company publishes on its website information on the assumptions of its strategy, including in particular long-term goals and planned activities. The progress in implementing the Company's strategy, including those determined by financial measures, is presented in the Company's current and periodic reports. The company does not include the ESG area in its business strategy for the reasons specified in the explanation to rule 1.3.

1.4.1. explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;

*This principle is not applied.*

Company's explanation: The Company does not comply with this rule for reasons specified in the explanation to rules 1.3 and 1.4.

1.4.2. present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.

*This principle is not applied.*

Company's explanation: The Company does not comply with this rule for reasons specified in the explanation to rules 1.3 and 1.4.

- **Management board and supervisory board**

2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

*This principle is not applied.*

Company's explanation: The company has not developed a diversity policy.

2.11.6 information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.

*This principle is not applied.*

Company's explanation: See explanation to rule **Błąd! Nie można odnaleźć źródła odwołania..**

- **Internal systems and functions**

3.6. The head of internal audit reports organisationally to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee.

*This principle is not applied.*

Company's explanation: The rule is not implemented as the Company has not appointed an internal auditor for the reasons specified in the explanation to rule 3.2. See explanation to rule 2.3.

- **General meeting and shareholder relations**

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

*This principle is not applied.*

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

4.8. Draft resolutions of the general meeting on matters put on the agenda of the general meeting should be tabled by shareholders no later than three days before the general meeting.

*This principle is not applied.*

Company's explanation: See explanation to rules **Błąd! Nie można odnaleźć źródła odwołania.** and **Błąd! Nie można odnaleźć źródła odwołania..**

4.9. If the general meeting is to appoint members of the supervisory board or members of the supervisory board for a new term of office:

4.9.1 candidates for members of the supervisory board should be nominated with a notice necessary for shareholders present at the general meeting to make an informed decision and in any case no later than three days before the general meeting; the names of candidates and all related documents should be immediately published on the company's website;

*This principle is not applied.*

Company's explanation: The Company has been established and operates under the laws of the State of Delaware and is not governed by the Commercial Companies Code. Nevertheless, the Company will make

efforts to ensure that the shareholders of the Company have the opportunity to get acquainted with the candidates as far in advance as possible in relation to the general meeting, subject to applicable law. See explanation to rules 2.3 and 4.1.

4.12. Resolutions of the general meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting the price or authorise the competent body to set the price prior to the subscription right record date within a time frame necessary for investors to make decisions.

*This principle is not applied.*

Company's explanation: The Company has been established and operates under the laws of the State of Delaware, hence the provisions of the Commercial Companies Code are not applicable to it. Under the laws of the State of Delaware, existing shareholders do not have a statutory pre-emptive right to new issue shares.

- **Conflict of interest and related party transactions**

5.6. If a related party transaction requires the consent of the general meeting, the supervisory board issues an opinion on the rationale of such transaction. In that case, the supervisory board assesses whether to ask a prior opinion of a third party referred to in principle 5.5.

*This principle is not applied.*

Company's explanation: The Company has been established and operates under the laws of the State of Delaware, hence the provisions of the Commercial Companies Code are not applicable to it. The Company's Articles of Association also do not require any corporate approvals for any transaction. See explanation to rules 2.3 and 4.1.

5.7. If a decision concerning the company's significant transaction with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made, including an opinion of the supervisory board referred to in principle 5.6.

*This principle is not applied.*

Company's explanation: The Company has been established and operates under the laws of the State of Delaware, hence the provisions of the Commercial Companies Code are not applicable to it. The Company's Articles of Association also do not require any corporate approvals for any transaction. See explanation to rules **Błąd! Nie można odnaleźć źródła odwołania.** and **Błąd! Nie można odnaleźć źródła odwołania..**

- **Remuneration**

6.3. If companies' incentive schemes include a stock option program for managers, the implementation of the stock option program should depend on the beneficiaries' achievement, over a period of at least three years, of pre-defined, realistic financial and non-financial targets and sustainable development goals adequate to the company, and the share price or option exercise price for the beneficiaries cannot differ from the value of the shares at the time when such program was approved.

*This principle is not applied.*

Company's explanation: Options granted under the Company's stock plan (2016 Stock Plan) provide for the possibility of their partial exercise before the expiry of 2 years from the date of granting the options, i.e. within 2 years from granting the options as a result of partial exercise of options, a maximum of 50% of the Company's shares granted on the basis of options may be acquired. Despite the possibility of partial exercise of options before the expiry of 2 years from their granting, the Company generally applies a 4-year option exercise period.

6.4. As the supervisory board performs its responsibilities on a continuous basis, the remuneration of supervisory board members cannot depend on the number of meetings held. The remuneration of members of committees, in particular the audit committee, should take into account additional workload on the committee.

*This principle is not applied.*

Company's explanation: There is no supervisory board within the meaning of Polish law at the Company.

6.5. The level of remuneration of supervisory board members should not depend on the company's short-term results.

*This principle is not applied.*

Company's explanation: See explanation to rule 6.4.

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

Risk management in the process of preparation of standalone and consolidated financial statements of the Silvair Group is effected at the initial stage by identification and assessment of risks and then by taking appropriate actions to eliminate or at least reduce the extent of such identified risks. The interim consolidated financial statements of the Silvair Group have been prepared in accordance with International Financial Reporting Standards (IFRS) on the basis of the standalone financial statements of the parent company Silvair, Inc. and consolidation packages from its subsidiaries.

Subsidiaries of Silvair, Inc. keep their accounting ledgers and prepare their financial statements in compliance with the Accounting Act. Silvair, Inc. keeps its accounting records in compliance with local accounting standards, while reporting packages forming the basis for the preparation of the Silvair Group's consolidated financial statements are adjusted to ensure their compliance with IFRS applied by the Silvair Group. However, it should be noted that, in principle, U.S. regulations do not require Silvair, Inc. to prepare financial statements within the meaning of the Polish Accounting Act.

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

Furthermore, the risk control and management process is effected by subjecting financial statements to verification by an independent statutory auditor. Annual financial statements of Silvair, Inc. and annual

consolidated financial statements of the Silvair Group are verified by the same audit firm that issues audit reports. In turn, semi-annual consolidated financial statements are subjected to reviews on the basis of which review reports are issued. Information on the audit firm selected to audit and review financial statements prepared by the Group and its members is presented in the section “Entity authorized to audit financial statements” of this Report of the Board of Directors on the activities of the Silvair Group and Silvair, Inc.

### **Silvair, Inc. shareholders holding significant stakes**

To the Company’s best knowledge, as at the date of publication of this report, shareholders holding significant stakes (at least 5%) are: Szymon Słupik, Rafał Han, Adam Gembala, Christopher Morawski and Krzysztof Januszkiewicz.

### **Holders of securities with special control rights in the Company**

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

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

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

### **All restrictions on the transfer of ownership title to the issuer’s securities**

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

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

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

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

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

### **• Board of Directors**

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

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

The number of Directors constituting the Board of Directors may be changed by way of a resolution of the Board of Directors or shareholders, subject to the provisions of the Certificate of Incorporation and the Articles of Association. A decrease in the number of Directors resulting from an adopted resolution may not result in the removal of a Director before the expiration of his/her term of office. There is no obligation to elect Directors by way of a written ballot.

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

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

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

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

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

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

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

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

- **Members of Management**

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

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



Subject to the powers (if any) of a member of Management following from his/her employment contract, any member of Management may be dismissed, with or without cause, by a majority of votes of members of the Board of Directors cast at an ordinary or extraordinary meeting of the Board of Directors or, except when a member of Management elected by the Board of Directors is concerned, by any member of Management who has been duly authorized by the Board of Directors to dismiss the said member of Management. A member of Management may resign from his/her function at any time by submitting a written notice of termination to the Company. Such resignation becomes effective as of the date of receipt of the notice of termination or as of a later date specified therein. Unless a notice of termination provides otherwise, the effectiveness of such resignation is not contingent on its acceptance. No resignation affects the Company's powers (if any) vested in it under the contract executed between it and the relevant member of Management.

As at 30 June 2022, the following persons served as members of Management:

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

In the first half of 2022, no changes were made to the composition or functions entrusted to members of Management.

#### **Description of how the members of the Management operate:**

##### **Chief Executive Officer (CEO)**

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

##### **President of the Board of Directors**

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

## **Vice-President of the Board of Directors**

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

## **Secretary**

The Secretary keeps, or orders the keeping of, the books of minutes of all meetings and shareholder meetings and activities undertaken by the Directors, committees of the Directors and shareholders in the main seat of the Management or in some other venue designated by the Board of Directors. The minutes state the time and place of holding every meeting, the names of the participants in meetings of the Board of Directors or in meetings of committees, the number of shares in attendance or represented at shareholder meetings, and the course of proceedings thereof. The Secretary keeps, or orders the keeping of, the share book or a duplicate copy of the share book containing the information prescribed by the Articles of Association in the main seat of the Management or in the office of the Company's transfer agent or the entity keeping its register in accordance with the provisions of the resolution adopted by the Board of Directors. The Secretary conveys, or orders the conveyance of, notices of all Shareholder Meetings and meetings of the Board of Directors, as required by law or the provisions of the Articles of Association. He or she also holds the other rights and performs other duties which may be assigned to him or her by the Board of Directors or the Articles of Association.

## **Chief Financial Officer**

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

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

## **Treasurer**

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

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

## **Exercising rights attached to shares in other companies**

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

## **Rights and duties of members of Management**

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

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

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

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

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

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

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

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

The shareholders' consent is required, with certain exceptions, for a number of key matters, including but not limited to: (i) election of Directors (however in certain circumstances the Board of Directors may appoint a Director, filling a vacancy in the Board of Directors); (ii) amendment of the Certificate of Incorporation; (iii) merger with another company; (iv) sale of all or substantially all assets of the Company; (v) introduction or material amendment of certain employee stock or stock option plans or other plans for rewarding employees in the form of participation in the share capital; (vi) issue or potential issue of stock resulting in change of control over the Company. DGCL requires approval of amendments of the Certificate of Incorporation by the Board of Directors and a vote in favor of the proposed amendment by shareholders representing a majority of outstanding voting shares.

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

DGCL requires that the notice of an ordinary or extraordinary shareholder meeting be given at least 10 days (or at least 20 days in the case of meetings pertaining to certain matters, such as voting on the merger or sale of all or substantially all assets of the Company) and no more than 60 days before the date of the shareholder meeting. It is mandatory to notify all shareholders holding voting rights on the record date, unless DGCL stipulates otherwise. In accordance with DGCL, if within 30 days of the date set for the ordinary shareholder meeting, the Ordinary Shareholder Meeting is not held and relevant acts are not performed with the written consent of the shareholders entitled to elect the Company's directors, or if the date of the ordinary shareholder meeting is not set within 13 months of the date of the previous Ordinary Shareholder Meeting or performance of relevant acts without convening it with the written consent of the shareholders entitled to elect directors, each Company shareholder entitled to vote at the Ordinary Shareholder Meeting has the right to file a motion to a Delaware court (Chancery Court) for a court order to immediately convene the Ordinary Shareholder Meeting.

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

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

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

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

In accordance with the Articles of Association, the quorum at the Shareholder Meeting means the holders of one third of outstanding shares with voting rights, present in person or represented by proxy.

Subject to contrary provisions of law, each common share in the Company entitles its holder to cast one vote in each matter correctly submitted for resolution by the Company's shareholders by ballot; however, subject to contrary provisions of law, the holders of common shares are not entitled to vote in the matter of amendment of the Certificate of Incorporation pertaining only to the conditions applicable to one or more series of preferred shares, if the holders of the shares of the given series are entitled, separately or jointly as a class with the holders of one or more series, to vote with such shares pursuant to the Certificate of Incorporation.

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

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

Description of the dealings of management and supervisory bodies, i.e. the Board of Directors and the Management, is presented in section "Description of how the members of the Management operate" of this Report.

In 2018, the Audit Committee was established within the Company. Currently, the Audit Committee consists of the following persons:

- Adam Gembala,
- Paweł Szymański,
- Christopher Morawski

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

The Committee is composed of at least two members of the Board of Directors. The Committee does not hold regular meetings and adopts its resolutions by a majority of votes. Meetings of the Committee are held as often as it is necessary to perform its tasks in an effective manner. In the first half of 2022, the Audit Committee carried out its duties during working consultations held on an ongoing basis. The Audit Committee also cooperated with the statutory auditor during the audit of individual financial statements. The following members of the Audit Committee satisfy the requirement of independence from the Company: Christopher Morawski and Paweł Szymański.

The Audit Committee may, in particular:

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

## 5.6 Additional information

### Employees

As at 30 June 2022, the Silvair Group (the parent company Silvair, Inc. and subsidiaries consolidated using the full method) employed a total of 48 persons. At the end of the comparable period, i.e. on 30 June 2021, the Group's headcount was 49 persons.

The following table presents the Silvair Group's headcount figures (without members of the Board of Directors) as at the indicated date, specifying the types of contracts applied:

Number of employed persons	30.06.2022	30.06.2021
Employment contract	27	28
Mandate contract	0	1
B2B*	20	19
Appointment	1	1
<b>Total</b>	<b>48</b>	<b>49</b>

\*B2B – contract for the provision of services with a separate business entity. Persons providing services under B2B contracts to both Silvair sp. z o.o. and Sway sp. z o.o. have been counted only once.

Silvair operates on the basis of the following values: Teamwork, Development, Responsibility for entrusted tasks and broadly construed Curiosity, both in the context of the product and modern technologies. Employees are provided with opportunities to improve their language and workplace competences, and most of them take advantage of such opportunities, for instance by participating in international conferences, on-line training courses and language courses. Also promoted is the exchange of knowledge between employees: internal Tech-Talks are held and cooperation with an external mentor dedicated to improving competences in one of the teams has been established.

The values of compensation received by key personnel are presented in Note 37 to the Interim Condensed Consolidated Financial Statements.

### Information on the employee share program control system

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

Regardless of the option pools specified in the KPI Agreement, on 31 March 2020 the Board of Directors of Silvair, Inc. adopted a resolution on increasing the number of shares under the Option Plan and granting

options for 523,312 shares to designated employees. The resolution was a direct result of the Board's decision to reduce the Group's operating costs - in connection with the COVID-19 pandemic and its economic impact - by i.a. reducing employment and changing remuneration conditions for the Group's key employees and associates.

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

### **Entity authorized to audit financial statements**

On 27 June 2022, the Company's Board of Directors adopted a resolution to again select Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, with its registered office in Poznań (postal code: 61-131) at ul. abpa Antoniego Baraniaka 88 E, entered in the Register of Commercial Undertakings kept by the District Court for Poznań – Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, under file number KRS 407558, taxpayer identification no. NIP 782-25-45-999, audit firm no. 4055 ("Grant Thornton"), as the audit firm that will audit the Company's financial statements. Previously, Grant Thornton performed audits of the Company's annual statements (standalone and consolidated) for years 2018, 2019, 2020, 2021, and reviews of the Company's consolidated financial statements for the first half of 2019, 2020, 2021.

Pursuant to the above-mentioned resolution of the Board of Directors and the agreement of 19 July 2022, Grant Thornton will perform the following: an audit of the Company's annual statements (standalone and consolidated) for 2022 and 2023, and a review of the Company's consolidated financial statements for the first half of 2022 and 2023.

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

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



The Board of Directors adopted the above resolution on the selection of Grant Thornton based on the recommendation provided by the Audit Committee regarding the selection of an audit firm to perform the audit. The Audit Committee, at the stage of preparation of recommendations, and the Board of Directors, during the final selection of the audit firm, are guided in particular by the following guidelines for selecting an entity authorized to conduct the audit:

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

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

**Table: Auditor's fee**

Scope of services	Reporting standards	Net fee (in PLN) for 2022	Net fee (in PLN) for 2021
Audit of the standalone annual financial statements	MSSF	25 000	12 000
Audit of the consolidated annual financial statements	MSSF	50 000	27 000
Review of the consolidated interim financial statements	MSSF	35 000	23 000
<b>Total</b>		<b>110 000</b>	<b>62 000</b>

## Disputes

From 1 January to 30 June 2022, no proceedings relating to any liabilities or receivables of Silvair, Inc. or any of its subsidiaries were pending before any court, arbitration body or public administration authority, the value of which would be equivalent to at least 5% of the Company's equity.

## 6. Representation of the Board of Directors

The Board of Directors of the Parent Company represents that, according to its best knowledge, these interim condensed consolidated financial statements and the comparative data were prepared in line with the accounting principles in effect in Silvair, Inc., and are a true, accurate and clear reflection of the Group's financial position and its financial result. The report of the Board of Directors on the activities of the Silvair Group for the period from 1 January to 30 June 2022 contains a true presentation of developments, achievements and situation of the Group, including a description of key risks and threats.

Rafał Han

Chief Executive Officer

Szymon Słupik

Chief Technology Officer,  
President of the Board of  
Directors

Adam Gembala

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

Paweł Szymański

Director

Christopher Morawski

Director