Annual consolidated financial statements of the Silvair, Inc. Group

Kraków, 20 April 2023

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General information

Parent Company

Name:	**Silvair, Inc.**
Changes to identification data that occurred after the end of the previous reporting period:	**None**
Headquarters:	**San Francisco, USA**
Registered office:	**717 Market Street, Suite 100, San Francisco, CA 94103, USA**
Primary place of business:	**United States of America**
Core business:	**IT business**
Legal form:	**American law company (Inc.)**
Country of registration:	**USA**
Registration authority:	**Secretary of State, Delaware Department of State, Delaware Corporate Number 5543093**
EIN: (Employer Identification Number)	**43-2119611**
Company's duration:	**Unlimited**
Name of the group's parent company:	**Silvair, Inc.**
Name of the group's ultimate parent company:	**Silvair, Inc.**
End date of the reporting period:	**2022-12-31**
Period covered by the financial statements:	**From 1 January 2022 to 31 December 2022**
Presentation currency:	**US Dollar (USD)**
Level of rounding used in financial statements:	**All amounts, unless indicated otherwise, are expressed in thousands of USD ("USD '000s")**
LEI code	**549300Q23N6B0O12P505**
Explanation of changes in the reporting entity's name or other identifying information since the end of the previous reporting period	**Changes did not occurr**

Group's business

The Issuer is the parent company of the Group operating in the field of new technologies focusing on the Internet of Things (IoT). The Group has developed an innovative technology for wireless communication of devices in the mesh topology, and is currently commercializing - in the global market - its product in the form of software and services with particular focus on smart lighting systems.

The Group's strategic goal is to achieve a leading position in the market of modern technological solutions for the IoT that are based on the Bluetooth Mesh standard. The main factor contributing to the Group's competitive advantage is its participation and the role it plays in the Bluetooth Special Interest Group (Bluetooth SIG), an organization supervising the development of standards. In 2014, the organization formed a task force under the name Mesh Working Group, aiming to develop a new version of the Bluetooth protocol that would support wireless exchange of data in the mesh network topology. The Group has made a significant contribution to the work of this organization, both in the intellectual and organizational dimension, and many of the solutions developed earlier by the Issuer have been adopted to the protocol specification, becoming the foundation of the new Bluetooth Mesh standard published by the Bluetooth SIG in 2017.

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

The Group 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 as part of the Silvair Platform, 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 Group 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.

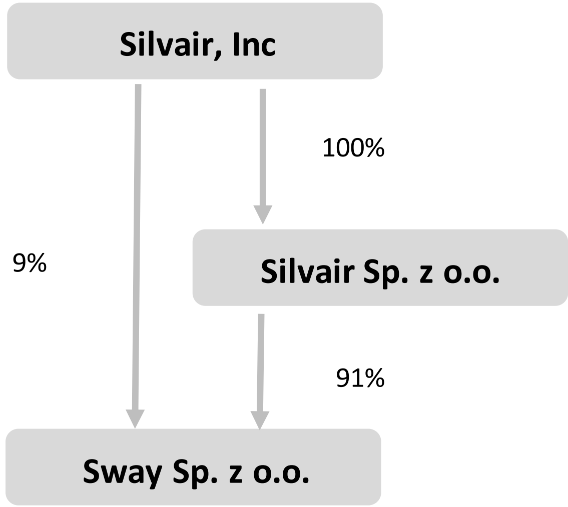
The Group also develops tools that allow the analysis and use of data generated by lighting infrastructure - including both operational data related to the current functioning of the installation (Connected Lighting), as well as data generated by sensors that are part of the lighting infrastructure (Building 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 Group's business activity covers the global market, and in particular the markets of North America and Europe.

The Group

The Group's structure as at 31 December 2022.



Functional and presentation currency

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

For each subsidiary, functional currency is determined and the assets and liabilities of the subsidiary are measured in that functional currency. The Group uses the direct consolidation method which entails translation of the financial statements of its subsidiaries into the presentation currency of the parent company, and translation differences are recognized as other comprehensive income.

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

- assets and liabilities in each presented statement of financial position are translated at the closing exchange rate in effect on that balance sheet date;
- income and expenses in each statement of comprehensive income are translated at average exchange rates (unless the average exchange rate is not a satisfactory approximation of the cumulative effect of exchange rates on the transaction dates – in such a case, income and expenses are translated at the exchange rates in effect on the relevant transaction dates);
- equity of subsidiaries and interests in subsidiaries are excluded for consolidation purposes at the historical exchange rate;
- any resulting foreign exchange differences are cumulatively recognized in other comprehensive income as a separate component of equity.

Presentation periods

The annual consolidated financial statements have been prepared as at 31 December 2022 and cover the period of 12 months, i.e. from 1 January 2022 to 31 December 2022.

For the data presented in the annual consolidated statement of financial position and off-balance sheet items, comparative financial data were presented as at 31 December 2021.

For the data presented in the annual consolidated profit and loss account, annual consolidated statement of comprehensive income, annual consolidated statement of changes in equity and annual consolidated cash flow statement, comparative financial data were presented for the period from 1 January 2021 to 31 December 2021.

Going concern assumption

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

Despite the highly unstable global geopolitical and economic situation, in 2022 the Silvair Group reported a double increase in revenue compared to the previous year. The key indicators reflecting the level of adoption of the offered solutions in the market also more than doubled. The most important one, which reflects the number of devices installed using Silvair Commissioning tools, reached the level of over 88,000, which is an increase of 148% compared to 2021. At the same time, in 2022 the Group's partners manufactured over 194,000 lighting components based on Silvair Firmware, which represents an increase of 135% compared to the previous year. The number of lighting projects implemented with the use of Silvair solutions is also growing dynamically. This is driven, among others, by constantly improving sales results on the part of the Group's key business partners, increasing awareness in the lighting industry regarding the advantages of the Bluetooth Mesh standard over other communication technologies, as well as increasing recognition of the Silvair brand.

The technology industry continues to struggle with shortages in the semiconductor market, but the adverse consequences of the global COVID-19 pandemic have recently become less noticeable. The Group expects further dynamic business development over the coming years, estimating that the growth will be driven, among others, by the following processes and trends:

- Further increase in the level of sales by the Group's partners,
- Systematic expansion of the ecosystem of partners, both on the side of manufacturers of lighting components and suppliers of complete lighting control systems,
- An increasingly complete product offer which from 2022 also includes a set of Connected Lighting services related to the use of data generated by the smart lighting network,
- The growing global trend of increasing the energy efficiency of built-up infrastructure in response to the ongoing climate change and the drastic increase in energy prices in 2022.

Counteracting climate change is becoming a major priority in highly developed countries today, resulting 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 is believed that over the years, replacing obsolete and highly energy-intensive technologies with modern energy-saving solutions will become an absolute necessity in almost all areas of our lives. The next stages of this transformation are happening before our eyes, as exemplified by the successive legal regulations introduced in the European Union. September 2023 will be the last month in which mercury-containing lamps (including fluorescent linear and circular lamps, as well as compact fluorescent lamps) will be able to be introduced to the EU market. These types of lamps are still popular e.g. in industrial applications, and the legal changes planned for this year open up a number of business opportunities for the Silvair Group and its partners operating on the European market.

At the same time, the drastic increase in energy prices observed in recent quarters motivates companies and institutions to independently search for solutions that can increase their energy efficiency and reduce the costs associated with the operation of lighting infrastructure. This was clearly visible in the number of inquiries related to energy efficiency that were addressed to the Silvair Group in 2022. The solutions and products offered by the Group make it possible to achieve profound energy savings in commercial spaces. Case study materials presented by the Group's partners document reductions in electricity costs of even up to 75% after implementing lighting control solutions based on Silvair technology.

Considering the above, the Group's product offer seems to be well suited to current market needs. There are also no indications that in the foreseeable future the trend towards improving the energy efficiency of buildings could be reversed or even weakened. Taking into account the Group's experience to date, as well as the specificity of the solutions and products developed by the Group, it can be expected that appopriate scaling of key business areas and effective management of challenges related to rapid growth should result in further dynamic business development.

This situation also has a positive impact on the investment climate around the Group and the opportunities for raising capital to finance its further operations. Despite the increase in consolidated revenues in 2022 by over 100% compared to the corresponding period of the previous year, the current sales revenues do not yet allow for the full financing of the Group’s operating and development activities over the next 12 months. This state of affairs may raise doubts regarding the continuation of the Group’s operation. Therefore, on 7 February 2023, the Board of Directors of Silvair, Inc. adopted a resolution on approval of incurring liabilities up to the total nominal value of USD 5.0 million in the form of an issue of debt securities convertible into new issue ordinary shares of the Company. As part of this issue, until the date of publication of this report, the Company has issued Convertible Securities for the total amount of USD 0.5 million.

Composition of the corporate bodies of the Parent Company as at 31 December 2022

Board of Directors:

Szymon Słupik — President

Adam Gembala — Vice-President, Secretary and Treasurer

Rafał Han — Director

Paweł Szymański — Director

Christopher Morawski — Director

Officers:

Rafał Han — Chief Executive Officer (CEO)

Szymon Słupik — Chief Technology Officer (CTO)

Adam Gembala — Chief Financial Officer (CFO)

As at the publication date, the composition of the Parent company's governing bodies remained unchanged.

Consolidation

Silvair, Inc. is the Group's Parent Company preparing annual consolidated financial statements. The reporting entity Silvair, Inc. is, at the same time, the ultimate parent company that prepares consolidated financial statements.

As at 31 December 2022 and as at 31 December 2021, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o. As at 31 December 2022, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and 9% shares in Sway Sp. z o.o. The remaining 91% shares in Sway Sp. z o.o. is held by Silvair Sp. z o.o.

The financial data of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with IFRS, are prepared for the same reporting period as the statements of the Parent Company, applying consistent accounting principles, based on uniform accounting principles applied to transactions and similar economic events. IFRS conversion adjustments are made in order to eliminate any discrepancies in the application of accounting policies.

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

Selected financial data

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

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

Reporting period	Average exchange rate in the period	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
01.01.2022 – 31.12.2022	1,0493	0,9557	1,1472	1,0655
01.01.2021 – 31.12.2021	1,1811	1,1208	1,2294	1,1329

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

Reporting period	Average exchange rate in the period	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
01.01.2022 – 31.12.2022	0,2238	0,1985	0,2550	0,2272
01.01.2021 – 31.12.2021	0,2580	0,2387	0,2736	0,2463

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

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

Selected financial data translated as at the balance sheet date:

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

Item (amounts in USD thousand)		USD		EUR		PLN
	01.01.2022 –31.12.2022	01.01.2021 –31.12.2021	01.01.2022 –31.12.2022	01.01.2021 –31.12.2021	01.01.2022 –31.12.2022	01.01.2021 –31.12.2021
Net revenue on the sale of products, goods and materials	1 295	645	1 234	546	5 786	2 500
Profit/(loss) from operating activities	-2 022	-2 127	-1 927	-1 801	-9 035	-8 244
Profit (loss) before tax	-2 477	-2 928	-2 361	-2 479	-11 068	-11 349
Profit (loss) of the period	-2 168	-3 075	-2 066	-2 604	-9 687	-11 919
Net cash flows from operating activities	-325	-843	-310	-714	-1 452	-3 267
Net cash flows from investing activities	-1 724	-1 668	-1 643	-1 412	-7 704	-6 464
Net cash flows from financing activities	1 189	953	1 133	807	5 313	3 694
Total net cash flows	-860	-1 558	-820	-1 319	-3 843	-6 037

For line items of the statement of financial position

Item (amounts in USD thousand)	USD		EUR		PLN	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Total assets	11 452	12 641	10 749	11 159	50 405	51 324
Liabilities and provisions for liabilities	4 942	3 635	4 638	3 209	21 752	14 758
Non-current liabilities	1 515	316	1 422	279	6 668	1 283
Current liabilities	3 427	3 319	3 216	2 930	15 084	13 475
Equity attributable to shareholders of the parent company	6 510	9 006	6 110	7 950	28 653	36 565
Share capital	1 583	1 558	1 486	1 375	6 967	6 326
Number of shares	15 831 719	15 583 106	15 831 719	15 583 106	15 831 719	15 583 106
Weighted average number of shares*	15 752 745	13 608 994	15 752 745	13 608 994	15 752 745	13 608 994
Earnings/(loss) per share (in USD, EUR and PLN)	-0,14	-0,23	-0,13	-0,19	-0,61	-0,88
Book value per share (in USD, EUR and PLN)	0,41	0,58	0,39	0,51	1,81	2,35

* the amount was updated following recalculation in the period

Representation by the Board of Directors

These annual consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed in the European Union, which have been published and have come into effect as at 1 January 2022.

Silvair, Inc. Group informs that the representations by the Board of Directors on the preparation and publication of these financial statements for the period from 1 January to 31 December 2022 are presented in the Report of the Board of Directors of Silvair, Inc. on the activity of the Silvair, Inc. Group for 2022.

Annual consolidated financial statements of the Silvair, Inc. Group

Annual consolidated statement of financial position

(Amounts in USD thousand)	Note no.	31 December 2022	31 December 2021
Non-current assets		**10 535**	**11 019**
Capitalized expenditures on development work	**1.1**	9 648	10 430
Computer software	**2.1**	52	60
Property, plant and equipment	**3.1**	11	13
Right-of-use assets	**3.7**	84	83
Financial assets	**4**	6	6
Deferred tax assets	**5**	734	427
Current assets		**917**	**1 622**
Inventory	**6**	2	2
Trade receivables and other receivables	**7÷10**	514	359
Cash and cash equivalents	**11**	401	1 261
Total assets		**11 452**	**12 641**

(Amounts in USD thousand)	Note no.	31 December 2022	31 December 2021
Equity		**6 510**	**9 006**
Equity attributable to the shareholders of the parent company		**6 510**	**9 006**
Share capital	**12**	1 583	1 558
Capital from revaluation of options	**13**	490	537
Share premium account	**14.1**	28 176	27 937
Other capital	**14.3**	-180	365
Retained earnings	**15**	-23 559	-21 391
Equity attributable to non-controlling entities		-	-
Non-current liabilities		**1 515**	**316**
Deferred tax liabilities	**17**	12	16
Liabilities on bonds convertible to shares	**20.1.1**	1 282	-
Prepayments and accruals related to grants	**21**	221	300
Current liabilities		**3 427**	**3 319**
Trade liabilities and other current liabilities	**19.1**	310	353
Liabilities from contracts with customers	**20.4**	270	183
Lease liabilities	**18.1**	84	83
Liabilities on bonds convertible to shares	**20.1.1**	2 350	2 245
Other short-term provisions	**20.3**	40	50
Prepayments and accruals related to grants	**21**	373	405
Equity and liabilities		**11 452**	**12 641**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Annual consolidated profit and loss account

Annual consolidated profit and loss account (amounts in USD thousand)	Note no.	01.01.2022 –31.12.2022	01.01.2021 –31.12.2021
Revenue	22	**1 295**	**645**
Cost of sales	26	**1 056**	**1 056**
Gross sales result		**239**	**-411**
Selling and distribution expenses	26	574	423
General and administrative expenses	26	1 267	1 395
Other operating income	24	90	144
Other operating expenses	25	504	42
Losses on account of expected credit losses	25	6	-
Operating result		**-2 022**	**-2 127**
Financial income	27	-	-
Financial costs	28	455	801
Result before tax		**-2 477**	**-2 928**
Income tax	29	-309	147
Net profit/(loss) for the period		**-2 168**	**-3 075**
Profit/(loss) attributable to:			
shareholders of the parent company		-2 168	-3 075
non-controlling interest		-	-

		01.01.2022 –31.12.2022	01.01.2021 –31.12.2021
Net earnings/(loss) per share (in USD)		-0,14	-0,20
Diluted earnings/(loss) per share (in USD)	**16**	-0,12	-0,18

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Annual consolidated statement of comprehensive income

Annual consolidated statement of other comprehensive income (amounts in USD thousand)	**01.01.2022 –31.12.2022**	**01.01.2021 –31.12.2021**
Net profit/(loss) for the period	**-2 168**	**-3 075**
Other comprehensive income	**-545**	**-168**
Other comprehensive income to be reclassified to result in the future	-545	-168
Foreign exchange differences from translation of foreign operations	-545	-168
Other comprehensive income not to be reclassified to result in the future	-	-
Total comprehensive income	**-2 713**	**-3 243**
Total comprehensive income attributable to:		
Shareholders of the parent company	-2 713	-3 243
Non-controlling interest	-	-

Annual consolidated statement of changes in equity

Annual consolidated statement of changes in equity (amounts in USD thousand)	Share capital	Capital from revaluation of options	Share premium account	Other capital	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interest	Total equity
At the beginning of the period 01.01.2022	**1 558**	**537**	**27 937**	**365**	**-21 391**	**9 006**	**-**	**9 006**
Exercise of stock options for Company shares	25	-242	239	-	-	22	-	22
Issue of new shares as part of the stock plan		-	-	-	-	-	-	-
Share issue costs	-	-	-	-	-	-	-	-
Valuation of stock options under IFRS 2	-	195	-	-	-	195	-	195
Issue and conversion of bonds convertible to shares		-	-	-	-	-	-	-
Result of the period	-	-	-	-	-2 168	-2 168	-	-2 168
Other comprehensive income for the period	-	-	-	-545	-	-545	-	-545
At the end of the period 31.12.2022	**1 583**	**490**	**28 176**	**-180**	**-23 559**	**6 510**	**-**	**6 510**

Annual consolidated statement of changes in equity (amounts in USD thousand)	Share capital	Capital from revaluation of options	Share premium account	Other capital	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interest	Total equity
At the beginning of the period 01.01.2021	**1 343**	**483**	**24 819**	**533**	**-18 316**	**8 862**	**-**	**8 862**
Exercise of stock options for Company shares	33	-238	239	-	-	34	-	34
Issue of new shares as part of the stock plan	65	-	1 117	-	-	1 182	-	1 182
Share issue costs	-	-	-50	-	-	-50	-	-50
Valuation of stock options under IFRS 2	-	292	-	-	-	292	-	292
Issue and conversion of bonds convertible to shares	117	-	1 812	-	-	1 929	-	1 929
Result of the period	-	-	-	-	-3 075	-3 075	-	-3 075
Other comprehensive income for the period	-	-	-	-168	-	-168	-	-168
At the end of the period 31.12.2021	**1 558**	**537**	**27 937**	**365**	**-21 391**	**9 006**	**-**	**9 006**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Annual consolidated cash flow statement

(Amounts in USD thousand)	Note no.	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
Profit (loss) before tax		**- 2 477**	**-2 928**
Adjustments for:			
Depreciation and amortization	26	1 326	1 345
Foreign exchange gains (losses)		294	571
Interest		139	215
Profit (loss) from investing activities		426	-
Movement in provisions		-10	5
Movement in inventory		-	3
Movement in receivables		-148	-142
Movement in current liabilities, except for loans and borrowings		47	-75
Tax paid		-1	-1
Movement in prepayments and accruals		-115	-132
Other adjustments resulting from operating activity	11.1	194	296
Net cash from operating activities		**-325**	**-843**
Disposal of property, plant and equipment		45	-
Purchase of property, plant and equipment	2.2	9	3
Expenditures for development work and acquisition of intangible assets	1.2	1 760	1 665
Net cash from investing activities		**-1 724**	**-1 668**
Net proceeds from issuing shares		23	1 162
Loans and borrowings drawn		-	-
Proceeds from the issue of debt securities		1 250	-
Repayment of loans and borrowings		7	124
Repayment of lease liabilities		75	61

Interest	2	24
Net cash from financing activities	**1 189**	**953**
Net cash flows	**-860**	**-1 558**
Movement in cash	**-860**	**-1 558**
Movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**1 261**	**2 819**
Cash at the end of the period	**401**	**1 261**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Explanatory notes to the annual consolidated financial statements

Basis for preparation and accounting policies

Basis for preparation of the consolidated financial statements

These annual consolidated financial statements of the Group cover the period of 12 months ended on 31 December 2022 and have been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS") and interpretations issued by the International Accounting Standards Board and approved by the European Union, effective for annual periods beginning on 1 January 2022.

The EU IFRS include the standards and interpretations accepted and published by the International Accounting Standards Board (IASB).

Amendments to standards or interpretations

Published Standards and Interpretations that have been issued and are effective for annual periods beginning on 1 January 2022:

- Amendments to IAS 16 Property, plant and equipment - prohibiting the deduction from the production cost of an item of property, plant and equipment of any proceeds from the sale of items produced while the asset is being brought to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity shall recognize the proceeds from the sale of such items and the production cost of those items in the profit and loss account. Effective date - annual period beginning on or after 1 January 2022.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets - the amendments provide clarifications regarding the costs that an entity considers in analyzing whether a contract is an onerous contract. The amendment is effective for financial statements for periods beginning on or after 1 January 2022.
- Annual Improvements Programme 2018-2020 - the amendments provide clarifications and further specify the standards' guidance on recognition and measurement: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture, and to illustrative examples to IFRS 16 Leases. Effective for annual periods beginning 1 January 2022.
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, and IAS 37 Provisions, Contingent Liabilities and Contingent Assets - effective for annual periods beginning on or after 1 January 2022.

The Group considers that the application of the above-mentioned standards and amendments to standards did not have a material impact on the interim condensed consolidated financial statements in the period of their initial application, and resulted only in changes to the applied accounting principles or, possibly, extension of the scope of necessary disclosures.

New standards and interpretations that have been published but are not yet effective:

The following standards and interpretations have been issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC), but have not entered into force yet:

- Amendments to IFRS 10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". In the event that the non-monetary asset constitutes a "business", the investor shall show the full gain or loss on the transaction. If the assets do not meet the definition of a business, the investor recognizes a gain or loss excluding the portion representing the interests of other investors. The effective date of the amended regulations has not been set by the International Accounting Standards Board

- IFRS 17 Insurance Contracts – published on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023. The main purpose of IFRS 17 is to ensure the transparency and comparability of insurers' financial statements. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4.
- Amendment to IAS 1 Presentation of Financial Statements - relating to the classification of liabilities as current or non-current - was published on 23 January 2020 and is effective for annual periods beginning on or after 1 January 2023. Amendments to IAS 1 affect the requirements relating to the presentation of liabilities in financial statements. The classification of financial liabilities as non-current will depend on the existence of the rights to prolong the liability for a period longer than 12 months, and on the fulfillment of the conditions for the implementation of such a prolongation as at the balance sheet date.
- Amendments to IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors – Definition of accounting estimates. An amendment clarifying the definition of estimated values, i.e. monetary amounts recognized in the financial statements that are subject to measurement uncertainty. The amendment is applicable to annual periods beginning on or after 1 January 2023.
- Amendment to IAS 1 Presentation of Financial Statements - the IAS Board clarified which information regarding the accounting policy applied by the entity is significant and requires disclosure in the financial statements. The principles focus on adjusting disclosures to the individual circumstances of the entity. The Board warns against the use of standardized provisions copied from IFRS and expects that the basis for valuation of financial instruments will be considered as material information. The change is effective for annual periods beginning on or after 1 January 2023.
- Amendment to IFRS 16 Leases - the amendment clarifies the requirements for the valuation of a lease liability arising from a sale and leaseback transaction. It is intended to prevent incorrect recognition of the result on the transaction in the part concerning the retained right of use in the case when lease payments are variable and do not depend on an index or rate. The change is effective for annual periods beginning on or after 1 January 2024.
- Amendments to IAS 12 Income Taxes - obligation to recognize deferred tax on individual lease transactions and expired liabilities - effective for annual periods beginning on or after 1 January 2023.

Application of a standard or interpretation before its effective date.

The Group decided not to use the option of earlier application of the above standards, amendments to standards, and interpretations. The Group will apply the amended standards to the extent of the introduced changes from 1 January 2023, unless a different effective date is provided. The application of the amended standards will not have a material impact on the Group's consolidated financial statements during the period of their initial application.

Description of adopted accounting policies

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

Translation of items in foreign currencies

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

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

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

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

	31 December 2022	31 December 2021
PLN/USD	0,2272	0,2463

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

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
PLN/USD	0,2238	0,2580

Segments

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

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 or energy service companies (ESCOs). Luminaire manufacturers specialize in producing structural components of luminaires in which lighting components from other suppliers are then placed and connected. Providers of lighting control solutions and complete lighting control systems are the next link in the supply chain. They acquire components or complete luminaires directly from the above-mentioned suppliers, and then integrate individual components with each other, while also implementing lighting control logic. Ready-to-use solutions and systems are usually distributed through a network of own vendors who cooperate closely with enterprises responsible for design specification. The buyers of lighting control systems primarily include property owners and property managers. They usually do not choose specific lighting solutions for their buildings, relying in this regard on the knowledge and experience of companies specializing in providing complete lighting control solutions. It should be noted that the activities of many entities go beyond the framework defined above, which often results in a significant shortening of the above-mention 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 Ligting 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 smart lighting control, such as:
    - Automatic occupancy-based control (*Occupancy Sensing*) – it is a scenario that uses data from a network of motion sensors to automatically adjust the operation of luminaires to the presence of people in a given space. In practice, this means automatic switching off / dimming of the light when motion sensors do not detect occupancy in a given room. LBNL estimates that this scenario generates average energy savings of 24%.
    - Automatic control based on natural light availability (*Daylight Harvesting*) – it is a scenario that uses data from a network of light sensors to automatically adjust the light intensity depending on the availability of natural light in a given space. In practice, this means automatic switching off / dimming of the light when the natural light coming in through the windows fully or partially covers the lighting needs in a given room. LBNL estimates that this scenario generates average energy savings of 28%.

- Automatic control based on a defined schedule – it is a scenario that involves defining a time schedule for the operation of a lighting installation. Such a schedule can be defined based on a 24-hour clock (e.g. turning the lights on at 7 a.m. and turning them off at 6 p.m. on every weekday) or based on the astronomical clock (e.g. turning the lights on at sunset and turning them off at sunrise). LBNL estimates that this scenario generates average energy savings of 24%.

The above scenarios can be combined with each other to maximize energy efficiencies. In the case of smart lighting networks, these and other advanced lighting control strategies can be freely configured and optimized using intuitive software - e.g. an application installed on a mobile phone or tablet. The software provided by Silvair is designed in such a way that its operation does not require lighting control expertise, as is the case with traditional cable systems. Silvair Lighting Firmware is offered to lighting component manufacturers in a one-time payment model for each activated firmware license (one activated license means one smart component sold by the Company's partner).

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

Smart lighting services (Connected Lighting)

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

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

- **Lighting infrastructure diagnostics** - unlike traditional lighting products, smart luminaires enable bidirectional exchange of information. This means they not only receive instructions sent by switches, dimmers or occupancy sensors, but are also able to transmit a wide range of data regarding the operation of the installation. This information can be transmitted in real time, providing a very precise insight into the current state of the entire lighting infrastructure. When the appropriate software is used, this data allows – for example – generation of automatic alerts in the event of any irregularities. This in turn allows immediate reaction, e.g. replacement of a faulty luminaire. The functionality eliminates the need for carrying out a visual inspection of the system in order to identify defective luminaires. In the case of extensive lighting networks installed e.g. in hotels, this increases the reliability of the installation, significantly improves the effectiveness of maintenance works, substantially reduces costs, and increases customer satisfaction. It is also possible to develop more advanced software that analyzes data packets on an ongoing basis to identify even minor anomalies, e.g. fluctuations in device operating temperature or fluctuations in the level of generated light. This provides the foundation for implementing the so-called predictive maintenance practices which allow predicting failures of lighting components in advance. This, in turn, further increases the reliability of the entire installation, while eliminating the undesirable consequences of device failures. In addition, data generated by smart luminaires can be used by customers to exercise their warranty rights. Having precise information on the total lifetime operating hours of the device, the customer can easily verify the manufacturer's warranty regarding its lifetime, and exercise the customer's rights in the event of a warranty breach. On the other hand, a device manufacturer can obtain a wide range of data regarding the ways its component is used by the customers in order to be able to design solutions that better meet the needs of consumers.

- **Emergency lighting system test automation**. Emergency lighting systems are not used on a daily basis, but it is necessary to ensure their reliability in emergency situations, including situations that threaten human life, e.g. in the event of a fire. For this reason, fire regulations oblige property managers to regularly inspect such installations. These inspections must be carried out by specialists with appropriate qualifications who verify the reliability of the installation on-site. Unlike traditional cable installations, a smart lighting system can autonomously verify the operation of individual system components, and automatically diagnose potential problems. It is possible to generate periodic reports that include all data required by fire regulations, which significantly reduces the expenses associated with carrying out mandatory periodic maintenance inspections.
- **Energy consumption monitoring.** Using appropriate software, a building administrator can keep track of the amount of electricity consumed by the lighting installation - from individual luminaires, through individual rooms and floors, to the entire building. This allows optimizing the lighting system operation and implementing other advanced lighting control scenarios. Energy monitoring is also important from the point of view of entities applying for energy rebates, as it allows easy documentation of e.g. the fact that a system meets specific energy efficiency requirements, or that specific energy savings have been achieved through a lighting control system modernization.
- **Remote control and configuration of the lighting installation**. Smart lighting systems provide the ability to remotely control the operation of a lighting installation in real time, and to remotely configure lighting settings (e.g. relating to the implemented advanced control scenarios). As a result, it is possible to adjust the system operation to current needs and circumstances without the need for physical presence of the system administrator in the building. This functionality enables more flexible management of the lighting infrastructure while reducing the costs associated with a specialist visit.

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

Smart building management (Building Intelligence)

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

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

- **Occupancy Monitoring.** Motion and occupancy sensors not only help increase the comfort of people in a given space by adjusting lighting, air conditioning and heating to their needs at a given moment, which actively supports energy saving efforts, but are also able to collect and transfer space occupancy data which can later be used for:
  - Optimizing space utilization and optimizing space maintenance costs, as well as increasing employee productivity e.g. through more efficient organization of the office space, increase in the efficiency of cleaning services (deploying them only in the spaces that have been used), and increase in the efficiency of building processes such as heating or air conditioning.
  - Improving sales by recognizing and understanding customers' shopping habits and improving the efficiency of the sales space.
  - Increasing the safety of the building as well as people and assets inside the building by improving the operation of alarm / security systems or providing integration with such systems.
- **Indoor navigation.** GPS navigation works great outdoors, but performs poorly indoors due to interference and significant weakening of the radio signal. Implementing the Bluetooth Mesh technology in the lighting infrastructure enables sending radio signals to mobile devices which – after the mapping process is carried out – allow determining the location inside a building. Due to the fact that the locating process is based on information received by a mobile phone, this functionality can be used without users losing their privacy, which is the case with video recording.
- **Asset tracking.** Employees are often involved in the search for equipment, which generates significant time and financial losses in some organizations. Asset tracking eliminates the need for employees to find items manually. It also provides accurate insight into how efficiently spaces are used in a given organization, office or warehouse, while enabling identification of relationships with regard to how resources are used. This in turn allows streamlining of business operations. Collecting data on where the equipment is and how it is used allows understanding what actions should be taken to keep the equipment in operation for as long as possible, e.g. by anticipating necessary repairs before they become urgent.

- **Monitoring of environmental conditions.** Once the lighting infrastructure is equipped with appropriate sensor technology, it is possible to collect and analyze data relating to environmental quality assessment. Monitoring of relevant indicators contributes to the safety of processes, resources and humans. Examples include:
  - Protecting inventory and maintaining specific conditions for products stored in warehouses or used in production processes,
  - Preventing equipment failures and downtimes,
  - Increasing productivity by maintaining comfortable and safe environmental conditions for building occupants.

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

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

Property, plant and equipment

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

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

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

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

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

As at the balance sheet date, the Group also reviews property, plant and equipment for impairment indications and assesses the need to recognize impairment losses on this account. The need to recognize impairment losses occurs when the Group – based on the conducted impairment loss test – estimates that an asset will not bring the expected economic benefits or will bring significantly lower benefits in the future. Impairment loss is recognized at the surplus of the asset's carrying amount over its recoverable amount. Recoverable amount is the higher of the following two amounts: fair value less the cost necessary to be incurred in connection with its sale, or value in use.

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

An item of property, plant and equipment may be derecognized if disposed of or if the Group does not expect to realize any future economic benefits from its further use. Any gains or losses resulting from the sale, liquidation or cessation of use of fixed assets are defined as the difference between the sales revenues and the net value of these fixed assets. These gains and losses are recognized in the result as other operating income or costs at the moment when the buyer obtains control of the property, plant and equipment component to be disposed of in accordance with the requirements of IFRS 15. The amount of consideration for the disposal of an item of property, plant and equipment is determined in accordance with the requirements of IFRS 15 on determining the transaction price.

Fixed assets under construction relate to fixed assets in the course of construction or assembly and are recognized at purchase price or manufacturing cost, less impairment losses, if any. Fixed assets under construction are not depreciated until the construction is completed and the asset is commissioned.

Costs of development work

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

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

An intangible asset arising from development work is recognized if, and only if, the Group can demonstrate all the issues specified in IAS 38 necessary to qualify development work as an asset, and is able to demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to measure reliably the expenditure incurred during development which may be assigned to the intangible asset.

Production cost of intangible assets that have the nature of development work includes direct costs comprised of costs of materials, work of the Group's employees, and services directly related to the performed development work as well as a justified portion of indirect (departmental) costs.

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

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

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

As at the balance sheet date, the Group reviews the progress status of each project and verifies intangible assets for indications of impairment. If it is identified that any events or circumstances may point to difficulties with recovery of the carrying amount of the given asset, an impairment test is carried out. An annual impairment test is carried out also for costs of development works which have not yet been accepted for use.

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

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

Impairment is charged to other expenses corresponding to the function of the intangible assets in the period when the impairment was found, no later than as at the end of the financial year. If, for an asset subject to a write-down, there is a change in the estimated values used to determine the recoverable amount of the asset and the re-test based on them shows an increase in the recoverable amount of the write-down component, the asset's carrying amount is increased by reversing the previously made impairment loss in part or in full. The reversal of the impairment loss is recognized as income.

Other intangible assets

Intangible assets are measured at the historical cost of acquisition or production less depreciation and impairment losses. Depreciation is calculated using the straight-line method.

The estimated period of depreciation of other intangible assets is from 2 to 10 years.

Intangible assets may include intangible assets with an indefinite useful life and goodwill. Goodwill and intangible assets with an indefinite useful life are not amortized. They are subject to annual impairment loss tests.

Not later than at the end of the financial year, the Group performs periodic verification of the assumed economic useful lives of intangible assets, the residual value and the depreciation method, and the consequences of changes in these estimates are taken into account in the next and subsequent financial years (prospectively). As at the balance sheet date, the Group also verifies intangible assets in terms of the existence of premises for impairment and the need to recognize impairment losses on this account. The need to recognize impairment losses occurs when the Group, on the basis of the conducted impairment test, assesses that a given asset will not bring the expected economic benefits in the future or will bring significantly lower benefits. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the following two amounts: fair value less the costs to be incurred in connection with its sale, or value in use.

Financial assets

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

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

Assets are captured in the Group'a balance sheet when they become a party to a binding agreement. When an asset is recognized initially, it should be measured at its fair value – except for receivables recognized in accordance with IFRS 15 – plus, in the case of a financial asset or financial liability not cliassified as measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the asset or financial liability.

The Group applies simplified methods for measuring receivables carried at amortized cost, if this does not cause a deformation of the information contained in the statement of financial position, in particular if the period until repayment of the receivable is not long.

Impairment losses on other financial assets are included in financing activities.

If the reason for which the impairment loss was recognized ceases to exist, the whole or the relevant part of the previously recognized impairment loss increases the value of the given asset.

Leases and right-of-use assets

For each concluded contract, the Group decides whether the contract is or includes a lease. A lease is defined as a contract or part of a contract that conveys the right to control the use of an identified asset (the underlying asset) for a period of time in return for consideration. To this end, three main aspects are analyzed:

- whether the contract relates to an identified asset that is either expressly stated in the contract or implicitly when the asset is made available to the Group,
- whether the Group has the right to obtain substantially all of the economic benefits from using the asset throughout its useful life to the extent specified in the contract,
- whether the Group has the right to direct the use of the identified asset throughout its useful life.

On the commencement date, the Group recognizes the right-of-use asset and the lease liability. The right-of-use is initially measured at the purchase price consisting of the initial value of the lease liability, the initial direct costs, the estimate of the expected costs of dismantling the underlying asset and the lease payments paid on or before the commencement date, less any lease incentives.

The Group amortizes the right of use using the straight-line method from the commencement date to the end of the useful life of the right of use or to the end of the lease term, whichever is earlier. If there are indications for this, the rights of use are tested for impairment in accordance with IAS 36.

As at the commencement date, the Group measures the lease liability at the present value of the outstanding lease payments using the lease interest rate if it can be easily determined. Otherwise, the lessee's marginal interest rate is used.

The lease payments included in the lease liability consist of fixed lease payments, variable lease payments dependent on index or rate, amounts expected to be paid as a guaranteed residual value, and exercise purchase option payments if they are reasonably certain to be exercised.

In subsequent periods, the lease liability is reduced by repayments made and increased by accrued interest. The valuation of the lease liability is updated to reflect contract changes and to reassess the lease term, exercise of call option, guaranteed residual value or lease payments based on an index or rate. As a rule, the revaluation of the liability is recognized as an adjustment to the right-of-use asset.

The Group applies the practical solutions permitted by the standard regarding short-term leases and leases in which the underlying asset is of low value. For such contracts, instead of recognizing right-of-use assets and lease liabilities, lease payments are recognized in profit or loss on a straight-line basis over the lease term.

Inventory

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

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

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

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

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

Trade receivables and other receivables

Trade receivables are measured at the transaction price, within the meaning of IFRS 15, at initial recognition, and at amortized cost as at the balance sheet date, using the effective interest rate minus impairment losses. Other receivables are measured at the amount required to be paid.

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

In the case of trade receivables, the Group applies a simplified approach assuming calculation of write-offs for expected credit losses for the entire lifetime of the instrument. Write-offs are estimated on a collective basis and receivables are grouped according to their past due period. The write-off estimate is based on the historical past due dates and the connection of the arrears with the actual repayment rate from the last 2 years, taking into account the available information regarding the future. As the Group's sales revenues with significant values appeared in 2019, the method adopted to estimate the write-downs is reviewed by the Group based on data available in subsequent years.

In 2020, the Group developed a model in which verification covers the percentage of receivables in the intervals of overdue periods as at the last day of the year preceding the balance sheet date, which remained outstanding as at the balance sheet date. The same calculations were made for receivable as at 31 December 2022. The verification showed that all receivables, which as at 31 December 2020 and 31 December 2021 were in the overdue group, were paid within the required period. Out of the overdue receivables, the average percentage of unpaid receivables was as follows:

Overdue:	up to 30 days	unpaid	6,74%
	from 31 to 90 days	unpaid	14,04%
	from 91 to 180 days	unpaid	0,00%
	from 181 to 360 days	unpaid	29,57%
	over 360 days	unpaid	100,00%

For each aging group of receivables as at 31 December 2022, the above % ratios were used to calculate the expected credit losses.

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

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

Assets from contracts with customers

The Group recognizes, in contract assets, the rights to remuneration in return for goods or services that the Group has provided to the customer if this right is dependent on a condition other than the passage of time. The Group assesses whether a contract asset is impaired on the same principles as in the case of financial assets under IFRS 9.

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

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

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

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

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

Prepayments and accruals

In prepaid expenses, the Group captures expenses that were incurred in advance while they relate in whole or in part to subsequent periods. Prepaid expenses are presented in the balance sheet under the item Trade receivables and other receivables.

The Group records prepayments and accruals on a short-term and long-term basis. Prepayments and accruals also include subsidies related to assets, which are presented in the balance sheet as Prepayments and accruals.

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

If the subsidy relates to a particular cost item, it is recognized as revenue in proportion to the costs which the subsidy is supposed to compensate for. If the subsidy is related to an asset, its fair value is recognized on the "revenue from future periods" account and then gradually entered on the profit and loss account by means of equal annual write-offs for the estimated utilization period for the related asset. For the needs of presentation in the consolidated statement of financial position, the Group does not deduct subsidies from the carrying amount of assets but recognizes subsidies as revenue from future periods in the "Prepayments and accruals" line item.

Cash and cash equivalents

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

Cash is measured at amortized cost.

Non-current assets classified as held for sale

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

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

Equity

The Group's equity is comprised of:

- Share capital
- Capital from revaluation of options
- Share premium account
- Other capital
- Retained earnings.

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

Capital from revaluation of options (share-based payment)

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

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

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

Share premium account

This capital is created from the share premium less the costs of the issue.

Other capital

The other capital item is comprised of:

- revaluation of assets value,
- write-offs from profit from subsequent financial years,
- minority interest transactions,
- foreign exchange differences from translation of foreign operations.

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

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

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

Retained earnings

The item Retained earnings includes retained earnings from previous years and the result for the current year. Undistributed result from previous years constitutes profits and losses generated in previous financial years, not transferred by the resolution of the approving body to another item of equity or to dividend payment.

Provisions for liabilities

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

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

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

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

Trade liabilities and other non-financial liabilities

Liabilities are the Group's present liabilities resulting from past events, the fulfillment of which will reduce assets generating economic benefits for the Group. Current trade liabilities are recognized in the amount payable due to insignificant discount effects. Interest, if any, is recognized when the suppliers' notes are received. Non-current liabilities are the liabilities whose maturity, counting from the end of the reporting period, is longer than 12 months. Current liabilities are the liabilities whose maturity, counting from the end of the reporting period, is shorter than 12 months. Other non-financial liabilities include in particular liabilities to the tax office on account of value added tax and other public institutional debt, liabilities on account of received advance payments to be settled by deliveries of goods, services or non-current assets. Other non-financial liabilities are recognized at the amount of the required payment.

Liabilities from contracts with customers

Liabilities from contracts with customers constitute the entity's obligation to transfer goods or services to the customer in return for which the Group has obtained remuneration (or the amount of remuneration is due) from the customer. Liabilities from contracts with customers include future revenues on account of such services as IT maintenance, which are spread over time. Each time the Group makes a professional judgment and estimate of the advancement of performance of the contracts in relation to the issued invoices and allocation of the transaction price. The Group records prepayments and accruals on a short-term and long-term basis.

Financial liabilities

A financial liability is any liability that is:

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

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

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

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

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

Income tax

Income tax includes: current tax to be paid and deferred tax.

Current tax

The current tax burden is determined on the basis of the tax result (tax base) for a given financial year.

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

Deferred tax

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

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

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

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

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

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

Operating revenues and expenses

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

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

- identification of the contract with the customer,
- identification of the performance obligations,
- determination of the transaction price,
- allocation of the transaction price to performance obligations,
- recognition of revenue when or after a performance obligation is satisfied.

Identification of the contract with the customer

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

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

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

Identification of the performance obligations

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

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

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

Determination of the transaction price

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

Allocation of the transaction price to performance obligations

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

Recognition of revenue when or after the group satisfies a performance obligation

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

Significant financing component

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

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

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

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

The Group capitalizes additional costs associated with efforts aimed at executing the contract provided if it expects to recover such costs within a timeframe not longer than one year from the date of incurring the costs. Any costs which the Group expects never to be recovered and any costs that are expected to be recovered within one year from incurring them are recognized as costs of the period in which they were incurred. Capitalized costs are presented in prepayments and accruals and are depreciated using the straight-line method over the anticipated term of the contract.

The cost commensurate with the revenues from the sale of rights to use a software license for a definite period of time is the amortization cost of completed development works.

The Group conducts sales on the basis of 2 types of contracts defining the scope of delivered services, materials and licenses.

The contracts have a written form and include:

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

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

The revenue from the sale of the products and services provided under CSA agreements (except for service and maintenance services) is recognized at the time of performance of the obligation to provide the service and hand-over of control and benefits to the customer. Performance under these agreements occurs when the customer configures the lighting network components. At that time, a charge is made for each device that is configured through this process.

Under CSA agreements, guaranteed software service and maintenance constitute a separate libaility item.

The revenue from service and maintenance is recognized over time because the customer uses the provided service as it is provided by the supplier. The Group settles service and maintenance revenue on a straight-line basis, evenly over time.

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

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

- a product in the form of firmware for wireless lighting control is delivered. The firmware is downloaded from the cloud via the Internet and is installed on components manufactured by the Partner. The firmware is delivered on the basis of a license.

- in addition, Silvair MaTE hardware is delivered that enables the installation of the firmware; it is connected on the production line to the Partner's computer (making it possible to download firware activation keys and install the firmware from the cloud in the Partner's components).
- software service and maintenance is guaranteed.

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

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

Financial activity revenues and expenses

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

Uncertainty of estimates

In preparation of the consolidated financial statements, the Parent Company's Board uses its judgment in making numerous estimates and assumptions that affect the adopted accounting policies and the presented values of assets, liabilities, revenues and costs. Although the adopted assumptions and estimates rely on the best knowledge of the Parent Company's management on current actions and events, the actual results may differ from the expectations.

As regards the development works conducted by the Silvair Inc., Group, two key assumptions have been identified for which there is a significant risk of material adjustments of the carrying amounts of the Group's assets:

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

Since the above assumptions pertain to a longer time horizon, in the Issuer's assessment, they do not have any significant impact on the risk of major adjustments of the carrying amount of the Group's assets during the next financial year. The uncertainty of estimates is also burdened with the risk of not fully known consequences of the situation caused by COVID-19 as well as the economic and political situation related to the outbreak of war in Ukraine. In the opinion of the Board, at the moment this does not necessitate the adjustment of the carrying amounts of the Group's assets.

Subjective assessments and judgments

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

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

In the reporting period, no changes were made in the methods used to make estimations, compared to 2021.

Seasonality of business

The Group's business is not seasonal.

Business combinations and loss of control

During the period of 12 months of 2022, there were no business combinations or loss of control in the Group. There were no such events in 2021 either.

Additional notes and explanations to the annual consolidated financial statements

Note 1.1 Capitalized expenditures on development work

Capitalized expenditures on development work (amounts in USD thousand)	31.12.2022	31.12.2021
Completed development work	8 752	9 603
Development work not yet completed	896	827
Total	**9 648**	**10 430**

In the period from 1 January to 31 December 2022, the Group's capitalized costs of development work amounted to USD 1.76 million, of which: USD 924 thousand – Silvair Platform, USD 702 thousand - Silvair Mesh Stack, USD 134 thousand - Bluetooth Mesh Protocol. The work under the ALS project is financed from the NCBiR (described in the statements for 2021 and previous periods).

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

Bluetooth Mesh protocol:

The aim of the project is to prepare and develop a wireless communication protocol in the mesh topology based on the Bluetooth technology. The project is executed in cooperation with other partners in the task force appointed by the Bluetooth Special Interest Group, aiming to prepare the specification and develop the Bluetooth Mesh standard. The project has been being developed since 2014 and is of open nature, i.e. individual protocol development work stages are closed (i.e. accepted for use) together with publication of subsequent versions of the Bluetooth Mesh standard. The first stage of the development work under the project was closed in 2017 with the publication of the new standard. Further stages of work are completed with the publication of subsequent versions of the Bluetooth Mesh protocol specification. In the reporting period from 1 January to 31 December 2022, the expenditures incurred for development of the next project stage increased the value of development work not yet completed.

Silvair Mesh Stack:

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

Silvair Platform:

The aim of the project is to develop a technology and service platform, comprising digital tools for launch, configuration and management of smart lighting networks, and an infrastructure that allows the Company to provide innovative services. The project has been being developed since 2015, in parallel with the work on the Bluetooth Mesh protocol and the Silvair Mesh Stack, and is of open nature, i.e. individual development work stages are closed (i.e. accepted for use) together with delivery of subsequent commercial versions of the tools and expansion of the scope of services provided by the Issuer. The first stage of development work was completed at the end of 2018 with the Issuer's release of the commercial version of the tools (the so-called Commissioning Tool). Subsequent stages of work are completed when the Issuer releases subsequent commercial versions of the software (Silvair Platform). The expenditures incurred in the reporting period and in the previous year for development of the next project stage increased the value of completed development work.

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

In the reporting period, the Issuer did not incur any research expenditure.

Amortization of capitalized expenditures on development work (amounts in USD thousand)	31.12.2022	31.12.2021
Completed development work	1 327	1 369
Development work not yet completed	-	-
Total	**1 327**	**1 369**

Amortization of completed development works is charged to the cost of sales.

Estimates:

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

Due to the unique nature of the activities, comprising comprehensive development and implementation of an innovative technology, the Issuer carries out impairment tests for the set of assets which are jointly referred to as cash generating units.

In carrying out impairment tests for completed and not yet completed development works, the Issuer follows two key factors:

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

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

The Issuer has also assessed the following:

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

Amortization is recognized, as a rule, using the straight-line method for the estimated useful life of the given asset.

The adopted 10-year amortization period is justified by the innovative nature of the developed technology and its market potential, backed up by the global Bluetooth Mesh standard. The amortization period has been estimated taking into account the useful life of the technology and the possibility of deriving benefits from individual development works. Information on the performed tests and their results are included in Note 1.3 - Results of impairment tests for the costs of development work.

At least once a year, the Group revises the assumed periods of useful life, based on its current estimates. The verification did not reveal the necessity to change the adopted periods.

Note 1.2 Movement in capitalized expenditures on development work

Capitalized expenditures on development work* (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Gross value at the beginning of the period	**15 726**	**14 800**
Additions, including:	1 760	1 665
expenditures incurred	1 760	1 665
foreign exchange differences from measurement in presentation currency	-	-
Reductions, including:	2 606	-
liquidation and sale	1 690	-
foreign exchange differences from measurement in presentation currency	916	739
Gross value at the end of the period	**14 880**	**15 726**
Accumulated depreciation at the beginning of the period	**4 805**	**3 436**
Additions	1 327	1 369
Reductions	1 219	-
Accumulated depreciation at the end of the period	**4 913**	**4 805**
Impairment losses at the beginning of the period	**491**	**592**
Additions	-	-
Reductions	172	101
Impairment losses at the end of the period	**319**	**491**
Net value at the beginning of the period	**10 430**	**10 772**
Net value at the end of the period	**9 648**	**10 430**

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

In 2022, the assets assigned to the Wi-home project were sold as the product was not developed due to the fact that the Group's strategy focused on the development of the Silvair Platform, Silvair Mesh Stack and Bluetooth Mesh Protocol projects. An external partner of the group expressed a desire to acquire Wi-home, so it was decided to sell all rights to this project.

Note 1.3 Results of impairment tests for the costs of development work

The Group has reviewed the development work from the perspective of the possibility of generating expected economic benefits in the future. In 2019, as a result of the review, the Group identified intangible assets worth USD 693 thousand, which lost their value as a result of the market's lack of interest in the products that had been developed based on these assets, and discontinuation of the development of the technology implemented in them. These assets have been covered by an impairment loss in the full amount. As at 31 December 2022, as a result of the review, no new items of this group of assets were identified that would require additional impairment losses.

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

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

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

The recoverable amount has been determined on the basis of the value in use of the assets, understood as the present estimated value of future cash flows which are expected to be achieved due to further use of the cash generating unit.

Assumptions adopted for the needs of impairment tests:

- The test is prepared on the basis of an internal financial forecast of the Silvair Group for 2023-2032 (Forecast) based on the discounted cash flow method.
- Due to the innovative nature of the commercialized technology, a 10-year projection period has been adopted.
- The execution of development work has multiple stages, i.e. individual development work stages are closed upon release of the next software versions and/or launch of the next service or package of digital services.
- The development work volume in individual projection years comprises: initial carrying amount, direct expenditures (personnel and non-personnel) on continuation of individual work stages, indirect expenditures and other expenditures of the Group which are aimed to contribute to earning revenues from the tested assets.
- The initial carrying amount comprises all expenditures incurred both for development works completed and not yet completed included in the cash generating unit.
- To determine the discount rate, the weighted average cost of capital was used. The WACC value calculated for the needs of the Test was 17.91 %.

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

- The market size and potential have been estimated on the basis of market reports, including, among others: "Intelligent Lighting Controls" prepared by Navigant Research and "Smart Lighting Market" prepared by Markets&Markets.
- The business model has been verified with the partners and confirmed by already concluded contracts.

- The revenue increase rate in the years to come has been based on the so-called S-Curve – characterizing the implementation of new technologies.
- It has been assumed that the in the projection period the Group will reach the stage of business maturity.
- The pace and scale of acquisition of new customers have been based on historical data on the contracted clients and the scaling of the sales team, taking into account an appropriate cost relation.

When conducting impairment tests and preparing the financial forecast, the economic and financial impact of the COVID'19 pandemic was also taken into account.

Cash generating unit (amounts in USD thousand)	Value of development work as at 31.12.2022	Recoverable amount
Bluetooth Mesh Protocol and Silvair Mesh Stack	4 877	21 573
Silvair Platform and Multi ALS	4 865	67 787
Total	**9 742**	**89 360**

The tests carried out did not identify the need to recognize additional impairment losses for the costs of development work.

Note 2.1 Intangible assets – computer software

Other intangible assets (amounts in USD thousand)	31.12.2022	31.12.2021
Other intangible assets (computer software)	52	60
Total	**52**	**60**

Estimates:

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

Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset. The amortization rates are determined on the basis of the anticipated useful life of other intangible assets.

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

Note 2.2 Movement in intangible assets, by type

Other intangible assets (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Gross value at the beginning of the period	**641**	**641**
Additions	-	-
Reductions	-	-
Gross value at the end of the period	**641**	**641**
Accumulated depreciation at the beginning of the period	**581**	**571**
Additions	8	10
Reductions	-	-
Accumulated depreciation at the end of the period	**589**	**581**
Net value at the beginning of the period	**60**	**70**
Net value at the end of the period	**52**	**60**

The Group has no intangible assets used under lease agreements.

The Group has no intangible assets with restricted use rights.

The Group has no bank loans that would be secured with intangible assets.

As at 31 December 2022 and 31 December 2021, there were no contractual obligations related to the purchase of intangible assets.

Note 2.3 Ownership structure of intangible assets

Intangible assets (amounts in USD thousand)	31.12.2022	31.12.2021
Owned	52	60
Third party	-	-
Total	**52**	**60**

Note 3.1 Property, plant and equipment

Property, plant and equipment (amounts in USD thousand)	31.12.2022	31.12.2021
Fixed assets, including:		
land	-	-
buildings and structures	3	5
plant and machinery	8	8
means of transport	-	-
other fixed assets	-	-
Fixed assets under construction	-	-
Total	**11**	**13**

Information about fixed assets used on the basis of lease agreements is presented in Note 3.7.

The Group has no land in perpetual usufruct.

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

The depreciation expenses for non-current assets are charged to general and administrative expenses.

As at 31 December 2022 and 31 December 2021, there were no contractual obligations related to the purchase of property, plant and equipment.

As at 31 December 2022 and 31 December 2021, there were no liabilities to the state budget or local government units related to the acquisition of ownership titles to buildings and structures.

Estimates:

As at each balance sheet date, the Group analyzes whether or not objective grounds exist that might imply an impairment of the given property, plant and equipment component.

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

The amortization rates are determined on the basis of the anticipated useful life of property, plant and equipment components.

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

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

Item (amounts in USD thousand)	Own land	Buildings and structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value as at 01.01.2022	**-**	**23**	**231**	**-**	**33**	**-**	**287**
Additions, including:	-	-	9	-	-	-	9
acquisition	-	-	9	-	-	-	9
foreign exchange differences from measurement in presentation currency	-	-		-	-	-	-
Reductions, including:	-	-	29	-	-	-	29
liquidation and sale	-	-	26	-	-	-	26
foreign exchange differences from measurement in presentation currency	-	-	3	-	-	-	3
Gross value as at 31.12.2022	**-**	**23**	**211**	**-**	**33**	**-**	**267**
Accumulated depreciation as at 01.01.2022	**-**	**18**	**223**	**-**	**33**	**-**	**274**
Additions	-	2	6	-	-	-	8
Reductions	-	-	26	-	-	-	26
Accumulated depreciation as at 31.12.2022	**-**	**20**	**203**	**-**	**33**	**-**	**256**
Net value as at 01.01.2022	**-**	**5**	**8**	**-**	**-**	**-**	**13**
Net value as at 31.12.2022	**-**	**3**	**8**	**-**	**-**	**-**	**11**

Item (amounts in USD thousand)	Own land	Buildings and structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value as at 01.01.2021	**-**	**23**	**238**	**-**	**33**	**-**	**294**
Additions, including:	-	-	4	-	-	-	4
acquisition	-	-	-	-	-	-	-
foreign exchange differences from measurement in presentation currency	-	-	4	-	-	-	4
Reductions, including:	-	-	11	-	-	-	11
liquidation and sale	-	-	10	-	-	-	10
foreign exchange differencesfrom measurement in presentation currency	-	-	1	-	-	-	1
Gross value as at 31.12.2021	**-**	**23**	**231**	**-**	**33**	**-**	**287**
Accumulated depreciation as at 01.01.2021	**-**	**17**	**228**	**-**	**33**	**-**	**278**
Additions	-	1	5	-	-	-	6
Reductions	-	-	10	-	-	-	10
Accumulated depreciation as at 31.12.2021	**-**	**18**	**223**	**-**	**33**	**-**	**274**
Net value as at 01.01.2021	**-**	**6**	**10**	**-**	**-**	**-**	**16**
Net value as at 31.12.2021	**-**	**5**	**8**	**-**	**-**	**-**	**13**

Note 3.3 Ownership structure of property, plant and equipment

Property, plant and equipment (amounts in USD thousand)	31.12.2022	31.12.2021
Owned	11	13
Third party	-	-
Total	**11**	**13**

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

There are no fixed assets in the Group used under lease, rental and other similar agreements that would not be depreciated or redeemed. The Group does not have perpetual usufruct of land.

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

In the period from 1 January to 31 December 2022 and in the comparable period of 2021, the Group did not incur costs for the production of fixed assets for its own use.

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

Item (amounts in USD thousand)	01.01.2022 – 31.12.2022	1.01.2020 – 31.12.2021
Expenditures incurred on property, plant and equipment	9	-
Expenditures incurred on intangible assets	1 760	1 665
Total	**1 769**	**1 665**

The Group expects that in 2023 the expenditures on intangible assets will be maintained at the level of expenditures incurred in 2022. In the period from 1 January to 31 December 2022 and in the comparable period of 2021, the Group did not incur expenditures for environmental protection. The Group does not intend to make any environmental protection expenditures in 2023.

Note 3.7 Right-of-use assets

Right-of-use assets (amounts in USD thousand)	31.12.2022	31.12.2021
Real estate right-of-use assets	84	83
Other assets	-	-
Total	**84**	**83**

As all the right-of-use assets relate to one category (rental of premises), the changes are presented without category breakdown.

As at 31 December 2022 and 31 December 2021, the subsidiaries, i.e. Silvair Sp. z o.o. and Sway Sp. z o.o, were parties to a lease agreement for a property in Kraków at ul. Jasnogórska. As at 31 December 2021, the agreement was signed until 31 December 2022.

On 1 December 2021 and again on 30 December 2022, the lease agreements were extended for another period, i.e. until 31 December 2023.

In connection with the change in agreements, the Group reassessed the qualification of the contracts in accordance with IFRS 16 and concluded that the amended contracts still meet the criteria for recognizing the right to use assets.

Information on the Agreements themselves is included in Note 38 Transactions with related entities.

Item (amounts in USD thousand)	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
Gross value at the beginning of the period	**377**	**296**
Additions, including:	84	83
acquisition	84	83
internal relocation	-	-
Reductions, including:	8	2
value update (change of contract terms)	-	-
foreign exchange differences from measurement in presentation currency	8	2
Gross value at the end of the period	**453**	**377**
Accumulated depreciation at the beginning of the period	**294**	**225**
Additions	75	69
Reductions	-	-
foreign exchange differences from measurement in presentation currency	-	-
Accumulated depreciation at the end of the period	**369**	**294**
Net value at the beginning of the period	**83**	**71**
Net value at the end of the period	**84**	**83**

Note 4 Financial assets (long-term)

Financial assets (long-term) (amounts in USD thousand)	31.12.2022	31.12.2021
In related entities	-	-
In other entities	6	6
Total	**6**	**6**

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

Note 5 Deferred tax assets

Deferred tax assets (amounts in USD thousand)	31.12.2022	31.12.2021
Deferred tax assets at the beginning of the period, including:	**427**	**576**
through profit or loss	427	563
through equity	-	13
Additions	**360**	**205**
through profit or loss	360	205
through equity	-	-
Reductions	**53**	**354**
through profit or loss	53	341
through equity	-	13
Deferred tax assets at the end of the period, including:	**734**	**427**
through profit or loss	734	427
through equity	-	-

Deferred tax assets arising from temporary differences resulting from: (amounts in USD thousand)	31.12.2022	31.12.2021
Accumulated tax losses to be used	8 064	8 130
Amount of tax losses in respect of which deferred tax assets have not been recognized (calculation based on the financial budget)	-4 206	-5 885
Total	**3 858**	**2 245**
Deferred tax assets (19%)	**734**	**427**

Deferred tax assets are treated in entirety as non-current assets and are not subject to discounting. Deferred tax assets are calculated using tax rates that are expected to be effective in the period when particular asset is realized or the provision is released, based on tax rates (and tax legislation) enacted or substantively enacted as at the balance sheet date.

Estimates:

The Group evaluates as at each balance sheet date the possibility of realization of the deferred tax asset. This assessment requires a professional judgment and estimates regarding, among others, future tax results. The analysis of anticipated tax revenues has shown a limited possibility of settling the tax loss for years 2018-2021 and for 2022. Therefore, the Group has made a decision to recognize an additional impairment loss for deferred tax assets.

The recognized deferred tax assets cover partial losses from years 2019-2022. The adopted assumptions regarding the probability of realization of revenues by the Group in subsequent years justify the keeping of the asset on the presented level.

Regulations regarding corporate income tax are subject to frequent changes, as a result of which there is often no reference to well-established line of rulings. The prevailing regulations are not always unambiguous, which additionally leads to differences in their interpretation. Tax settlements are subject to audits by tax authorities. If irregularities are identified in the tax settlements the taxpayer is obligated to pay the overdue amount together with the statutory interest due. Payment of overdue liabilities does not always release the taxpayer from criminal tax liability.

As a result of the aforementioned phenomena, tax settlements are burdened with risk. Tax settlements may be subject to audit within a period of five years from the end of the year in which the tax returns were submitted. As a result, the amounts reported in the financial statements, and thus the basis for calculation of the asset on tax losses and the asset itself may change at a later date after their final determination by the tax authorities.

Note 6 Inventory

Inventory (amounts in USD thousand)	31.12.2022	31.12.2021
Goods for resale	22	46
Impairment loss on goods	-20	-44
Total	**2**	**2**

Inventory releases are recognized using the detailed identification method. As at each balance sheet date the Company analyzes whether the carrying amount of inventory is higher than or equal to the realizable sales price.

Impairment losses on the inventory are recognized in operating expenses. During the year, the impairment loss decreased due to the liquidation of redundant goods. As at 31 December 2022, there were no reasons to recognize additional impairment loss.

Note 7 Trade receivables and other receivables

Trade receivables and other receivables (amounts in USD thousand)	31.12.2022	31.12.2021
From related entities	-	-
From other entities	527	380
Impairment losses	-13	-21
Total	**514**	**359**

Note 7.1 Trade receivables

Trade receivables (amounts in USD thousand)	31.12.2022	31.12.2021
From related entities	-	-
From other entities	404	292
Impairment losses	-13	-21
Total	**391**	**271**

Note 7.2 Impairment losses on trade receivables

As at 31 December 2022, impairment losses on trade receivables amounted to USD 13 thousand.

As at 31 December 2021, impairment losses on trade receivables amounted to USD 21 thousand. The change of the impairment loss results from differences in measurement of the receivable subject to the impairment loss.

To estimate the impairment losses on trade receivables, the Group uses historical past due dates and the link between the arrears and the actual repayments over the last 3 years, taking into account the available information regarding the future. The applied model is presented in the section "Description of adopted accounting policies".

Since the Group's sales revenues appeared in material amounts in 2019, the adopted method of estimating impairment losses will be verified by the Group on the basis of data available in the following years.

Note 8 Aging of trade receivables

Trade receivables (amounts in USD thousand)	31.12.2022	31.12.2021
Not overdue	329	197
Overdue, including:	62	74
up to one month	21	29
over 1 month to 3 months	1	40
over 3 months to 6 months	23	4
over 6 months to 1 year	26	17
over 1 year	4	5
Impairment losses on receivables	-13	-21
Trade receivables, including:	**391**	**271**
Overdue receivables (gross)	75	95

Note 9 Other receivables

Other receivables (amounts in USD thousand)	31.12.2022	31.12.2021
On taxes and other public benefits	74	45
Other receivables	-	1
Prepayments and accruals	49	42
Impairment losses	-	-
Total	**123**	**88**

In accruals, the Group presents expenditures which pertain to future periods incurred before the balance sheet date. Prepayments and accrued income as at 31 December 2022 and as at the end of the comparable period comprised mainly the costs of prepaid participation in fairs and conferences associated with presentation of the Group's activity, and license fees to be incurred in the profit and loss account successively in future periods.

Note 10 Impairment losses on other receivables

As at 31 December 2022 and 31 December 2021, the Group did not recognize any impairment losses on other short-term receivables.

Note 11 Cash and cash equivalents

Cash and cash equivalents (amounts in USD thousand)	31.12.2022	31.12.2021
Cash on hand	1	1
Cash in bank	400	1 260
Total	**401**	**1 261**

Note 11.1 Explanation to selected items of the cash flow statement

The line item “Other adjustments resulting from operating activity” shows the value charged to the general and administrative expenses corresponding to the value of accrued option capital, taking into account the executed portion in the amount of USD 194 thousand. The difference between the item "Net proceeds from the issue of shares and capital contributions" and the Statement of Changes in Equity relates to the accrued (non-cash) value of the option capital.

Note 12 Share capital

Share capital of the Parent Company as at 31.12.2022

Type	Number of shares	Par value (USD ’000s)	Share subscription price (USD ’000s)	Share premium account (USD ’000s)
Common Stock	14 871 719	1 487	27 861	26 374
Preferred Stock	960 000	96	125	29
Total	**15 831 719**	**1 583**	**27 986**	**26 403**

The par value of one share is USD 0.1. The number of shares expressed in single units.

Share capital ownership structure	Number of shares	% of shares	Number of votes (1)	% of votes
Rafał Han	1 930 465	12,19	3 562 465	17,27
Szymon Słupik	1 902 340	12,02	3 547 500	17,19
Chris Morawski	1 880 945	11,88	1 880 945	9,12
Krzysztof Januszkiewicz	1 880 867	11,88	1 880 867	9,12
Adam Gembala	1 018 760	6,43	2 145 520	10,40
Other shareholders holding less than 5% of shares	7 218 342	45,60	7 614 422	36,90
Total	**15 831 719**	**100,00**	**20 631 719**	**100,00**

([1]) 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 Group's shareholders do not hold any other voting rights than the rights specified above

The value of the share capital in 2022 increased due to the issue of the Company's common shares for the Company's associates and employees under the Company's Stock Plan described in the Company's prospectus approved by the Polish Financial Supervision Authority on 25 June 2018.

On 15 December 2022, the conversion of cash receivables from securities convertible into common shares of the new issue of the Company ("Convertible Securities") with a total nominal value of USD 2,100 thousand was to take place. Due to the lack of ability to meet the conditions set out in the Convertible Securities purchase agreements, concerning in particular the limits for admitting the converted shares to public trading, the Company - in consultation with the bondholders - decided to postpone the conversion date to the first quarter of 2023. In 2022, no redemption or repayment of non-equity and equity securities was recorded.

As at 31 December 2022, out of 15,831,719 issued shares, 15,811,019 shares have been paid in full.

Share capital of the Parent Company as at 31.12.2021

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	14 623 106	1 462	27 597	26 085
Preferred Stock	960 000	96	125	29
Total	**15 583 106**	**1 558**	**27 722**	**26 114**

The par value of one share is USD 0.1. Number of shares expressed in single units.

Share capital ownership structure	Number of shares	% of shares	Number of votes ([1])	% of votes
Rafał Han	1 914 455	12,29	3 546 455	17,40
Szymon Słupik	1 902 340	12,21	3 547 500	17,40
Adam Gembala	1 018 760	6,54	2 145 520	10,53
Chris Morawski	1 781 888	11,43	1 781 888	8,74
Krzysztof Januszkiewicz	1 055 865	6,78	1 055 865	5,18
Other shareholders holding less than 5% of shares	7 909 798	50,75	8 305 878	40,75
Total	**15 583 106**	**100,00**	**20 383 106**	**100,00**

As at 31 December 2021, out of 15,583,106 issued shares, 15,569,306 shares have been paid in full.

Note 13 Capital from revaluation of options

Capital from revaluation of options (amounts in USD thousand)	31.12.2022	31.12.2021
Valuation of stock options under IFRS 2	490	537
Total	**490**	**537**

See Note 30 for additional information on valuation of options.

Note 14.1 Share premium account

Other capital (amounts in USD thousand)	31.12.2022	31.12.2021
Supplementary capital	28 176	27 937
Total	**28 176**	**27 937**

Note 14.2 Movement in the item Share premium account

Movement in other capital (amounts in USD thousand)	01.01.2022 – 31.12.2022	01.01.2021 - 31.12.2021
At the beginning of the period	**27 937**	**24 819**
Exercise of stock options for Company shares	241	239
Expenditures incurred in connection with the stock issue	-	-50
Issue of new shares	-	1 117
Unpaid capital which has been called up	-2	-
Issue of shares in connection with the exercise of convertible bonds	-	1 812
At the end of the period	**28 176**	**27 937**

Note 14.3 Other capital

Other capital consists of two items reported separately in prior periods as:

- Minority interest transactions,
- Capital from foreign exchange differences on translation of foreign entities.

The appearance of the balance sheet item Minority interest transactions is a consequence of transactions occurring in 2018 and related to the issuance of bonds and conversion into shares of the Parent Company in exchange for the right to shares in the subsidiary Sway. The event is described in detail in the annual consolidated statements for 2019.

As at 31 December 2022 and as at 31 December 2021, there was no Capital attributable to Non-Controlling Entities.

As at 31 December 2022 and as at 31 December 2021, the value of the item Minority interest transactions amounted to USD -365 thousand.

Other capital (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
Minority interest transactions	-365	-365
Capital from foreign exchange differences on translation of foreign entities	185	730
Total	**-180**	**365**

Note 15 Retained earnings

The balance sheet item Retained earnings is the sum of two items reported separately in prior years as:

- retained earnings,
- financial result of the current period.

Retained earnings (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
Accumulated losses from previous years	-21 391	-18 316
Financial result of the current period	-2 168	-3 075
Total	**-23 559**	**-21 391**

Note 16 Earnings (loss) per share

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

Diluted earnings/(loss) per share are calculated by dividing the net profit/(loss), adjusted for the impact of interest on potential common shares, for the reporting period, attributable to the shareholders of the parent company, by the weighted average number of common shares outstanding during the reporting period, adjusted by the effect of diluting options.

Diluting options also include the allocation of Parent Company shares in the period from 1 January 2023 to the publication date.

Earnings/(loss) per share in the period covered by the financial statements	**31.12.2022**	**31.12.2021**
Weighted average number of parent company's shares in the period*	15 752 745	13 608 994
Diluting options, including:	2 373 072	3 403 963
on account of the option plan	478 729	866 300
on accounts of bonds	1 894 343	2 537 663
Weighted average number of parent company's shares in the period after diluting options	18 125 817	17 012 957
Continued operations		
Earnings/(loss) per share (USD) - weighted average number of shares	-0,14	-0,23
Diluted earnings/(loss) per share (USD)	-0,12	-0,18
Discontinued operations		
Earnings/(loss) per share (USD) - weighted average number of shares	-	-
Diluted earnings/(loss) per share (USD)	-	-
Continued and discontinued operations		
Earnings/(loss) per share (USD) - weighted average number of shares	-0,14	-0,23
Diluted earnings/(loss) per share (USD)	-0,12	-0,18

Note 17 Deferred tax liabilities

Deferred tax liabilities (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
Deferred tax liabilities at the beginning of the period, including:	**16**	**20**
through profit or loss	16	20
through equity	-	-
Additions, including:	-	-
through profit or loss	-	-
through equity	-	-
Reductions, including:	**4**	**4**
through profit or loss	4	4
through equity	-	-
Deferred tax liabilities at the end of the period, including:	**12**	**16**
through profit or loss	12	16
through equity	-	-

Deferred tax liabilities arising from temporary differences resulting from: (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
Difference between the tax value and carrying amount of completed development work	63	84
Total	63	84
Deferred tax liabilities (19%)	**12**	**16**

Note 18.1 Lease liabilities

Lease liabilities (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
Long-term	-	-
Short-term	84	83
Total	**84**	**83**

The lease liability pertains to real property lease agreements which, pursuant to IFRS 16, have been classified to lease liabilities. Information related to the agreements included in this item is presented in Note 3.7 Right-of-use asset, and Note 38 Transactions with related entities.

Valuation of liabilities does not comprise variable fees for consumption of utilities associated with the use of the real properties. Repayment of the interest part in the reporting period amounted to USD 1.4 thousand. In the Issuer's opinion, as at the publication date, in the future there will be no cash outflows to which the lessee would be exposed and which are not included in the valuation of lease liabilities. The agreements do not contain limitations or covenants imposed by the lessor.

Note 19.1 Trade liabilities

Trade liabilities (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
To related entities	-	-
To other entities	193	220
Total	**193**	**220**

Note 19.2 Aging of trade liabilities

Trade liabilities (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
up to one month	156	166
over 1 month to 3 months	-	-
over 3 months to 6 months	-	-
over 6 months to 1 year	-	-
over 1 year	-	-
Overdue, including:	**37**	**54**
up to one month	33	-
over 1 month to 3 months	-	-
over 3 months to 6 months	-	54
over 6 months to 1 year	1	-
over 1 year	3	-
Total	**193**	**220**

Note 20.1 Other liabilities (current)

Other current liabilities (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
To related entities	-	-
To other entities, including:	117	133
on loans	-	7
on taxes and other public benefits	62	72
on payroll	47	53
other	8	1
Total	**117**	**133**

In 2015, a subsidiary received a loan from the Polish Agency for Enterprise Development (PARP). The principal and interest parts of the loan were repaid on 30 December 2021. The loan balance reported as at 31 December 2021 relates to accrued statutory interest for overdue payment.

Note 20.1.1 Liabilities on bonds convertible to shares

Other liabilities (non-current) (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
Bonds convertible to shares	1 250	-
Interest on bonds convertible to shares	32	-
Total	**1 282**	**-**

Other liabilities (current) (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
Bonds convertible to shares	2 100	2 100
Interest on bonds convertible to shares	250	145
Total	**2 350**	**2 245**

Liabilities on bonds convertible to shares (amounts in USD thousand)	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
At the beginning of the period	2 245	3 985
Additions	1 387	189
Reductions	-	1 929
Total	**3 632**	**2 245**

Bonds convertible to shares (amounts in USD thousand)	31.12.2022	31.12.2021
Par value of issued bonds	3 350	2 100
Interest costs	282	145
Interest paid	-	-
Bond liability	**3 632**	**2 245**

On 8 August 2019, the Company's Board of Directors adopted a resolution to approve the incurring of liabilities up to a total par value of USD 5.5 million in the form of convertible promissory notes ("Convertible Securities").

On 9 June 2022, the Company's Board of Directors adopted a resolution approving incurring liabilities up to a total par value of USD 3.0 million in the form of another issue of Convertible Securities.

As part of the aforementioned issues, until 31 December 2022 the Company has issued Convertible Securities with a total par value of USD 6.762 million, of which Convertible Securities with a total par value of USD 3.412 million along with accrued interest were converted into shares of new issues.

As a result of the assessment it has been concluded that the bonds do not contain an equity element and have not been classified as compound financial instruments in accordance with IAS 32. Therefore, they were fully recognized as liabilities measured at amortized cost.

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

As at 31 December 2022 and 31 December 2021, the Group had no other contingent liabilities. As at 31 December 2022 and 31 December 2021, the Group's companies were not acting as guarantors or sureties and also had not drawn its own or received third party promissory notes as collateral or payment for a transaction.

Note 20.3 Other short-term provisions

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

In 2022 and in 2021, the Entity did not recognize provisions for dispute liabilities.

Other short-term provisions (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
Provision for unused vacation time	40	50
Provisions for disputes	-	-
Total	**40**	**50**

Provisions for unused vacation time (amounts in USD thousand)	**31.12.2022**	**31.12.2021**
At the beginning of the period	**50**	**45**
Additions	12	43
Reductions	22	38
At the end of the period	**40**	**50**

Estimates:

The Group estimates the amount of the provisions on the basis of adopted assumptions and methodology, assessing the probability of spending the funds comprising economic benefits, and classifies amounts with a high probability of spending, as at the balance sheet, as liabilities. The estimates pertaining to the value of provisions for unused vacation time were based on the data on the number of vacation time days unused by employees, the value of the average compensation individually for each employee divided by the average number of business days per month (22 days), and the charges on compensations charged to the employer. The percentage rate of social security charged to the employer was adopted at the level of 22.11% for the year 2022 and 2021 (taking into account contributions to PPK - Employee Capital Plan).

Note 20.4 Liabilities from contracts with customers

Liabilities from contracts with customers (amounts in USD thousand)	01.01.2022	Additions	Reductions	31.12.2022
Maintenance services for Silvair Platform	177	310	223	264
Maintenance services for Silvair Mesh Stack	6	11	11	6
Total	**183**	**321**	**234**	**270**

Liabilities from contracts with customers (amounts in USD thousand)	01.01.2021	Additions	Reductions	31.12.2021
Maintenance services for Silvair Platform	126	247	196	177
Maintenance services for Silvair Mesh Stack	5	8	7	6
Total	**131**	**225**	**203**	**183**

As at 31 December 2022 and as at 31 December 2021, the Group identified liabilities associated with maintenance agreements according to the description in section Operating revenues in the Explanatory note to the financial statements and Note 23.

The payment terms specified in the agreements do not exceed 60 days. Elements such as obligations to accept returns or to refund the fees and other similar obligations, as well as warranties and related obligations, do not apply to liabilities from contracts with customers. The Group settles the identified performance obligations using the straight-line method, spread evenly over time, as the activities are performed evenly throughout the entire period of performance.

Liabilities from contracts with customers by maturity:

Maturity periods (amounts in USD thousand)	31.12.2022	31.12.2021
Up to one month	16	14
Over 1 month to 3 months	29	25
Over 3 months to 6 months	38	34
Over 6 months to 1 year	42	30
Over 1 year to 3 years	51	53
Over 3 to 5 years	94	27
Total	**270**	**183**

Note 21 Prepayments and accruals

Prepayments and accruals (amounts in USD thousand)	01.01.2022	Additions	Reductions	31.12.2022
Financing under the Smart Growth Operational Program	345	-	27 (1)	318
NCBiR subsidy for fixed assets	360	-	84	276
Total	**705**	**-**	**111**	**594**

(1) The change results from the exchange rate translation

Prepayments and accruals (amounts in USD thousand)	01.01.2021	Additions	Reductions	31.12.2021
Financing under the Smart Growth Operational Program	372	-	27(1)	345
NCBiR subsidy for fixed assets	454	-	94	360
Total	**826**	**-**	**121**	**705**

(1) The change results from the exchange rate translation

Prepayments and accruals (amounts in USD thousand)	31.12.2022	31.12.2021
Non-current part	221	300
Current part	373	405
Total	**594**	**705**

Note 22.1 Sales revenues

Sales revenues (amounts in USD thousand)	31.12.2022	31.12.2021
Revenues from sales of products	1 049	429
Revenues from sales of goods and services	246	216
Total	**1 295**	**645**

Since 2019, the Group has been obtaining revenues from sales of products and services which are to become the main source of revenues. These are revenues from contracts with customers:

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

Under **Commissioning Service Agreements (CSA)**, the Group delivers, maintains and operates applications for activation and control of the lighting management software for and on behalf of the Partner. Under these services it is also possible to provide the Silvair platform for lighting installations that are not based on the firmware developed by Silvair.

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

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

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

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

Breakdown of revenues from contracts with customers:

(Amounts in USD thousand)				**01.01.2022 - 31.12.2022**
Product/service type	**CSA agreements**	**SLS agreements**	**Other revenues from contracts**	**Total**
Firmware license	-	424	-	424
Activation	625	-	-	625
Development	4	-	-	4
Maintenance	167	-	-	167
Other	35	40	-	75
Total	**831**	**464**	**-**	**1 295**
Delivery date				
At the time	648	430	-	1 078
Over time	183	34	-	217
Total	**831**	**464**	**-**	**1 295**

(Amounts in USD thousand)				01.01.2021 - 31.12.2021
Product/service type	**CSA agreements**	**SLS agreements**	**Other revenues from contracts**	**Total**
Firmware license	-	181	-	181
Activation	248	-	-	248
Development	4	-	-	4
Maintenance	158	-	-	158
Other	21	33	-	54
Total	**431**	**214**	**-**	**645**
Delivery date				
At the time	263	185	-	448
Over time	168	29	-	197
Total	**431**	**214**	**-**	**645**

Revenues broken down by segments and description of the segments are presented in Note 23.

Estimates:

In the case of obligations performed over time (service and maintenance), the Group used the straight-line method to recognize revenues, pro rata to the elapse of time. The entity's actions and expenditures are executed evenly throughout the entire period of performance.

In the case of revenues recognized at the time, the Group has made a judgment that the licenses offered under SLS agreements have the nature of licenses with the right to use intellectual property, which means that the revenue from the sale of such licenses is recognized once, at the time of hand-over of control over the license to the customer.

In the case of granting access to the Silvair Platform, the Group estimated that the benefits are transferred at the time of activation of access to the Platform for each connected device.

Note 22.2 Sales revenues – geographic structure

Sales revenues (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2022 - 31.12.2021
Revenues from sales of products, including:	**1 050**	**429**
domestically	-	-
within the European Union	236	163
in third countries	814	266
Revenues from sales of services and goods, including:	**245**	**216**
domestically	-	-
within the European Union	70	77
in third countries	175	139
Total	**1 295**	**645**

Information on sales revenues – main buyers:

In 2022, the Group generated sales exceeding 10% of consolidated revenues in cooperation with two buyers:

- buyer A: 31.02 % of the Group's total consolidated sales revenues,
- buyer B: 16.96 % of the Group's total consolidated sales revenues,

In 2021, the Group generated sales exceeding 10% of consolidated revenues in cooperation with two buyers:

- buyer A: 21.55 % of the Group's total consolidated sales revenues,
- buyer B: 20.86 % of the Group's total consolidated sales revenues.

The buyers listed above are not affiliates or subsidiaries of Silvair, Inc. In 2022, sales to 7 customers accounted for almost 76% of revenue; in 2021, over 70% of revenue was realized from sales to 7 customers.

Information on sales revenues – geographic structure

Country	Sales to external customers	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
European Union, including Poland	USD	306	240
	%	24%	37%
Other countries	USD	989	405
	%	76%	63%
Total revenues	USD	1 295	645
	%	100%	100%

Note 23 Operating segments

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

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

Currently, the Group distinguishes 3 segments: Lighting Control, Smart Lighting Services, and Smart Building Management. In the reporting period, the Group earned revenues only in the Lighting Control segment. The Group has been working on product development in other segments and expects to realize respective revenues in the following years. The item Revenues from other activities includes revenues from former Wi-Home and Proxi segments which are discontinued.

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

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

Operating segment information from 01.01.2022 to 31.12.2022

Segment type (amounts in USD thousand)	Lighting Control	Items not allocated to segments	Total
Revenues and expenses			
Sales to external customers	1 295	-	1 295
Inter-segment sales	-	-	-
Cost of sales	1 056	-	1 056
Income and expenses (operating and other operating)	-352	-1 909	-2 261
EBIT	**-113**	**-1 909**	**-2 022**
Net financial income (costs)	-	-455	-455
Share in profits of associates	-	-	-
Gross profit	**-113**	**-2 364**	**-2 477**
Income tax (current and deferred)	-	-309	-309
Net profit for the reporting period	**-113**	**-2 055**	**-2 168**
Assets			
Costs of development work (carrying amount of assets)	9 742	94	9 648
Receivables	391	-	391
Unallocated assets	-	1 413	1 413
Total assets			**11 452**
Liabilities			
Financial liabilities	-	3 632	3 632
Liabilities from contracts with customers	270	-	270
Unallocated liabilities	-	1 040	1 040
Total liabilities			**4 942**
Other information	-	-	-
Depreciation and amortization	1 056	270	1 326

Operating segment information from 01.01.2021 to 31.12.2021

Segment type (amounts in USD thousand)	Lighting Control	Items not allocated to segments	Total
Revenues and expenses			
Sales to external customers	645	-	645
Inter-segment sales	-	-	-
Cost of sales	1 056	-	1 056
Income and expenses (operating and other operating)	-13	-1 703	-1 716
EBIT	**-424**	**-1 703**	**-2 127**
Net financial income (costs)	-	-801	-801
Share in profits of associates	-	-	-
Gross profit	**-424**	**-2 504**	**-2 928**
Income tax (current and deferred)	-	147	147
Net profit for the reporting period	**-424**	**-2 651**	**-3 075**
Assets			
Costs of development work (carrying amount of assets)	8 118	2 312	10 430
Receivables	271	-	271
Unallocated assets	-	1 940	1 940
Total assets			**12 641**
Liabilities			
Financial liabilities	-	2 245	2 245
Liabilities from contracts with customers	183	-	183
Unallocated liabilities	-	1 207	1 207
Total liabilities			**3 635**
Other information	-	-	-
Depreciation and amortization	1 056	289	1 345

Information about segments broken down by regions, product lines and recognition time.

(Amounts in USD thousand)			01.01.2022 - 31.12.2022
Segment type	**Lighting Control**	**Items not allocated to segments**	**Total**
Region			
European Union	306	-	306
Other countries	989	-	989
Poland	-	-	-
Total	**1 295**	**-**	**1 295**
Product/service type			
Firmware license	424	-	424
Activation	625	-	625
Development	4	-	4
Maintenance	167	-	167
Other	75	-	75
Total	**1 295**	**-**	**1 295**
Delivery date			
At the time	1 078	-	1 078
Over time	217	-	217
Total	**1 295**	**-**	**1 295**

(Amounts in USD thousand)			01.01.2021 - 31.12.2021
Segment type	**Lighting Control**	**Items not allocated to segments**	**Total**
Region			
European Union	240	-	240
Other countries	405	-	405
Poland	-	-	-
Total	**645**	**-**	**645**
Product/service type			
Firmware license	181	-	181
Activation	248	-	248
Development	4	-	4
Maintenance	158	-	158
Other	54	-	54
Total	**645**	**-**	**645**
Delivery date			
At the time	448	-	448
Over time	197	-	197
Total	**645**	**-**	**645**

Note 24 Other operating income

Other operating income (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Profit on the sale of non-financial non-current assets	-	2
Revaluation of non-financial assets	22	10
Released public and legal receivables	-	-
Other operating income	68	132
Total	**90**	**144**

In 2022, the item Other operating income consists of, among others, grants settled over time (USD 55 thousand) and the reversal of inventory impairment losses (USD 22 thousand).

Note 25 Other operating expenses

Other operating expenses (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Loss on sale of non-financial assets	426	-
By segments:		
Lighting Control	426	-
Other	-	-
Revaluation of non-financial assets	9	23
By segments:		
Lighting Control	7	23
Other	2	-
Other operating expenses	75	19
Total	**510**	**42**

The costs related to the revaluation of assets are described in Notes 1.1 and 1.2 and in Notes 6 and 7.

Note 26 Breakdown of costs

Cost items (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Depreciation and amortization	1 326	1 345
Consumption of materials and energy	86	65
External services	1 687	1 612
Taxes and fees	8	7
Payroll	841	949
Social security and other benefits	171	181
Other costs by nature	107	22
Value of goods and materials sold	-	-
Total costs by type	**4 226**	**4 181**
Movement in inventory of products and production cost of products for own use (development work)	**1 329**	**1 307**
Cost of sales	1 056	1 056
Selling and distribution expenses	574	423
General and administrative expenses	1 267	1 395
Total costs by function	**2 897**	**2 874**

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

Note 27 Financial income

Financial income (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Interest, including:	-	-
Interest on bank deposits and accounts	-	-
Foreign exchange differences	-	-
Total financial income	-	-

Note 28 Financial costs

Financial costs (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Interest, including:	139	215
To other entities, including:	139	215
Interest on financial liabilities	137	189
Interest on received loans	-	23
Interest on lease agreements	2	3
Foreign exchange differences	280	551
Other	36	35
Financial costs	**455**	**801**

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

Item (amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Profit before tax	**-2 477**	**-2 928**
Costs not classified as tax-deductible expenses, including:	**413**	**1 542**
Depreciation and amortization	152	175
PFRON disability fund tax	8	7
Unpaid interest	-	23
Unpaid payroll and social security contributions	22	19
Foreign exchange differences in the balance sheet	-24	961
Impairment losses	10	46
Other costs, including:	245	311
valuation of stock options (Note 30)	195	296
Costs of the previous year recognized as tax-deductible expenses in the current year	**19**	**17**
Social security contributions (ZUS) from November-December of the previous year, paid in January of the next year	19	17

Other	-	-
Revenues that are not tax revenues	**174**	**186**
Unpaid interest	-	23
Foreign exchange differences in the balance sheet	-	-
Grant	55	63
Other	119	100
Previous year revenues subject to taxation in the current year	**99**	**65**
Interest paid	-	-
Increase in revenues (balance sheet revenues settled over time)	99	65
Income / loss	-2 158	-1 524
Deductions from income (*)	-	-
Taxation base	**-2 158**	**-1 524**
Tax – Parent Company	1	1
Impact of movement in asset on deferred tax	306	-150
Impact of movement in liability on deferred tax	-4	-4
Total charges to profit before tax	**309**	**-147**

The tax rate applicable to the parent company is 27.98% and includes federal tax and state tax. Despite incurring balance sheet losses, the Company pays minimal state tax.

Reconciliation of the income tax calculated using the tax rate applied by the Parent Company on the result before taxation with the income tax shown in the consolidated statement is as follows:

(Amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Pre-tax result	-2 477	-2 928
Tax rate applied by the Company after adjusting for federal benefits - including federal tax and state tax	27,98%	27,98%
Tax rate applied by subsidiaries	19%	19%
Income tax according to the domestic rate of the Parent Company	-	-
Income tax reconciliation on account of:		
Change in deferred tax liability on account of the difference between the tax value and the carrying amount of completed development works	4	4
Change in the asset on account of deferred income tax on account of development tax losses	254	-150
Tax paid in the United States	1	1
Income tax	**-257**	**147**

Note 30 Share-based payment agreements

Description of the agreements:

On 7 October 2016, the Board of Directors adopted a resolution on the introduction of the "2016 Stock Plan" specifying the rules for granting and exercising rights to acquire shares by employees and associates of the Company (Option Plan).

On 14 October 2016, the Parent company signed a KPI Agreement, as amended by annex of 18 December 2017, setting forth the terms and conditions for granting stock options to the beneficiaries named in the agreement (i.e. members of the management board, key employees and associates of the Entity) under two option pools. As part of the "Option Pool" a total of 971,000 shares were to be awarded, and as part of the "Additional Option Pool" - a total of 482,000 shares were to be awarded.

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

On 31 March 2020, the Board of Directors of Silvair, Inc. adopted a resolution on increasing the number of shares under the Option Plan from 1,453,000 shares to 2,000,000 shares, covering all of the Company's employees with the new program.

Summary of information on share-based payment programs launched at the Group is presented in the table below:

	Program I	Program II	Program III
Formal basis	**KPI Agreement „Option Pool"**	**KPI Agreement „Additional Option Pool"**	**Resolution of the Board of Directors**
Program launch date	14.10.2016	14.10.2016	31.03.2020
Number of shares in the pool	971 000	482 000	547 000
Option exercise price (USD)	0,10	0,10	0,10
Price of shares listed on the WSE as at the program launch date (USD)	n/a	n/a	0,61
Number of shares granted under the concluded option contracts	971 000	482 000	545 047
Number of shares acquired in the exercise of options	921 500	253 710	434 371

Option exercise structure in the period:

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Pool of shares under the Option Plan	2 000 000	2 000 000
Number of shares available under the Option Plan at the beginning of the period	**37 014**	**295 443**
Increase of the pool of shares under the Option Plan	-	-
Number of shares granted under concluded option agreements	46 500	230 207
Number of shares taken up in exercise of the options	241 713	327 118
Number of shares remaining to be taken up in subsequent periods under option agreements	388 466	595 118
Number of shares released upon expiration of options	11 439	12 028
Number of shares to be granted under further option agreements at the end of the period	**1 953**	**37 014**

As at the publication date, the number of shares taken up in exercise of the options has increased to 1,728,481, which is described in Note 31 - Events after the balance sheet date.

The Group has measured the fair value of services received in exchange for equity instruments indirectly, by reference to the fair value of the equity instruments granted. The fair value of options awarded under the KPI Agreement was estimated by an independent expert using modern financial engineering methods. The Hull-White model was used to measure the fair value of the options granted, with the following assumptions:

- Stock price at the beginning of the period = $3.33.
- Strike price of the option = $0.10.
- Risk-free interest rate = 2.455%.

- Dividend yield = 0%.
- Parameter M = 3.
- Parameter eΔt = 0%.
- Stock price volatility (σ) = 46.6%.

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

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

(Amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Management costs	195	296
Capital from revaluation of options	195	296

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

(Amounts in USD thousand)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Other capital	239	238
Capital from revaluation of options	-242	-238

The change in capital from revaluation of options in the period between 01.01.2022 and 31.12.2022 resulted from the exercise of 241,713 stock options and revaluation of the remaining options in the vesting period. The total amount of shares taken up in performance of option contracts in the reporting period was USD 242 thousand. The change in capital from revaluation of options in 2021 resulted from the exercise of 327,117 stock options and revaluation of the remaining options in the vesting period. The total amount of shares taken up in the performance of option contracts in the period from 1 January to 31 December 2021 was USD 238 thousand.

Estimates:

The Group has measured the fair value of services received as consideration for equity instruments indirectly, by reference to the fair value of the equity instruments granted. The fair value of awarded options was estimated by an independent expert using modern financial engineering methods and the assumptions were presented in the note above. In the case of awarding further options from the available pool, the valuation will be carried out on the basis of the current stock price from the date of award. A significant increase of the stock price in the future may have significant impact on the value of the costs recognized on account of the option plan.

Note 31 Material events after the balance sheet date

The following material events took place after the balance sheet date:

Transfer of agreements to OPTOTRONIC GmbH

Due to the acquisition by Inventronics (Hangzhou) Inc. of a part of the OSRAM GmbH enterprise and the establishment of the special purpose company OPTOTRONIC GmbH, on 1 February 2023 Silvair sp. z o.o. concluded an agreement under which the existing rights and obligations arising from the agreements of 8 July 2019 for the sale of Silvair Commissioning tools and Silvair Firmware along with a set of tools for implementation on the production line were fully transferred to OPTOTRONIC GmbH.

Issue of Convertible Securities

On 7 February 2023, the Issuer informed in Current Report No. 3/2023 that the Company's Board of Directors adopted a resolution approving the incurring of liabilities up to the total nominal value of USD 5.0 million in the form of the issue of debt securities convertible to the Company's common stock of new issue (convertible promissory notes; "Convertible Securities") and setting the main terms of the issue of Convertible Securities.

Signing of an agreement with Luceco Plc.

On 15 February 2023, Silvair sp. z o.o. entered into agreement with Luceco Plc. based in Great Britain, for the sale of Silvair Commissioning (part of the Silvair platform), which covers the provision of Bluetooth Mesh-based tools for configuration of a smart lighting network in the Lighting Control as a Service model (LCaaS).

Signing of an agreement with LSI Industries, Inc.

On 10 March 2023, Silvair, Inc. concluded an agreement with LSI Industries, 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.

Issue of Silvair, Inc. shares

On 27 March 2023, the Issuer informed in Current Report No. 7/2023 that there was a conversion of cash receivables from debt securities convertible into common stock of the new issue of the Company (convertible promissory notes) with a total nominal value of USD 2,100,000.00, with maturity falling in 2022 ("Convertible Securities"), under which the Company issued to the holders of Convertible Securities a total of 1,439,334 ordinary bearer shares of the Company within the authorized capital of the Company ("Shares"). The conversion of the Convertible Securities into Shares took place on the terms specified in the terms and conditions of the issue of Convertible Securities as set out in the resolutions of the Company's Board of Directors of 8 August 2019 and 10 August 2020. In addition, the Company also issued 168,574 ordinary bearer shares as part of the Company's authorized capital in connection with the exercise of rights by participants of the managerial option program introduced at the Company ("Management Shares").

After the conversion of the Convertible Securities and the issue of the Management Shares, the share capital of the Company amounts to USD 1,738,305.30 and consists of 17,383,053 shares of the Company with a nominal value of USD 0.10 each, including (i) 16,423,053 Common Shares of the Company, representing in total 94.48% of the Company's share capital and entitling to a total of 16,423,053 votes at the Company's general meeting, representing in total 74.03% of the total number of votes in the Company, and (ii) 960,000 shares of the Company's Founders Preferred Stock (each such share entitles to six votes at general meeting of the Company), representing in total 5.52% of the share capital of the Company and entitling to a total of 5,760,000 votes at the general meeting of the Company, representing in total 25.97% of the total number of votes in the Company.

Loans

On 5 January 2023, a loan agreement was signed between Silvair, Inc. (the borrower) and the subsidiary Silvair Sp. z o. o. (the lender) for a total value of USD 150,000. The loan repayment date was set for 31 March 2027. By the date of preparation of this report, the subsidiary granted a loan to the parent company in the amount of USD 85 thousand. On 13 March 2023, Silvair, Inc. repaid the loan liability. At the moment, Silvair, Inc. does not exect the occurrence of circumstances for incurring further loan tranches.

On 10 March 2023, a loan agreement was signed between the subsidiary Silvair Sp. z o. o. (borrower) and Silvair, Inc. (the lender) for a total value of USD 4 million. The loan repayment date was set for 31 March 2027. By the date of preparation of this report, Silvair, Inc. granted a loan to a subsidiary in the amount of USD 115 thousand.

Admission of Silvair, Inc. shares to public trading

On 11 April 2023, the Issuer informed - in its Current Report No. 10/2023 - that the Management Board of the Warsaw Stock Exchange decided to: 1) introduce to trading on the parallel market, as of 13 April 2023, 1,607,908 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 17 April 2023, with reference to KDPW decision no. 297/2023 of 7 April 2023, 1,607,908 common bearer shares with a nominal value of USD 0.10 each, marked with the ISIN code USU827061099, were registered.

Admission of Silvair, Inc. shares to public trading

On 17 April 2023, the Issuer informed in Current Report No. 12/2023 that Silvair, Inc. issued Convertible Securities with a total nominal value of USD 0.5 million within the liability limit and on the terms and conditions approved by a resolution of the Company's Board of Directors on 7 February 2023.

Note 32 Information on joint ventures

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

Note 33 Financial risk management objectives and principles

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

- credit risk,
- liquidity risk,
- market risk,

- currency risk,
- interest rate risk,
- other price risk.

Credit risk is the risk that one party to a financial instrument fails to discharge its obligation to the Group causing financial loss for the Group. Credit risk arises in receivables, cash and cash equivalents, deposits, bonds purchased and security deposits paid. Impact of credit risk on the Group's main operating segments: production of software for remote communication between devices and smart lighting systems, due to its uniqueness, is not exposed to a significant level of this type of risk. Sales in these segments are largely to a stable client base and are made on deferred payment terms. The Group's counterparties are mainly companies with an established market and financial position, which means that the exposure to individual credit risk is not high.

The Group applies internal procedures and mechanisms that mitigate this risk: appropriate client selection, a new client review system and ongoing monitoring of amounts receivable. The Group consistently pursues the recovery of overdue receivables. The Group's credit risk is verified with the use of the model of % share of unpaid receivables in specific time intervals (the model description is included in the section "Description of adopted accounting policies"). The Group invests its cash in reliable financial institutions (selected on the basis of ratings). The Group is exposed to immaterial levels of credit risk.

Liquidity risk is the risk that arises when the Group meets difficulties in fulfilling its obligations related to financial liabilities.

Considering the stage of the Group's development, the pace of adoption of the developed technology and the innovative nature of the products based on this technology, we are exposed to a risk that we will not be able to fulfill our obligations when due, in particular due to limited access to funding, failure to earn revenues, delay in earning revenues or earning lower future revenues than assumed, or increased costs resulting from the development of our activity, or other factors. In addition, we are exposed to the risk of key clients failing to meet their contractual obligations towards the Group's companies. The Group takes a number of actions aimed at securing the funding for its current and future capital requirements, primarily through concentrating efforts on commercialization of its products, in parallel with efforts aimed at achieving the breakeven point as soon as practicable, and raising funding in the transition period from: issue of convertible notes, stock issue addressed to existing shareholders and a group of new investors, and research and development support programs (subsidies).

In 2022, the Group obtained funds from the issue of bonds and the issue of shares. The Group monitors the risk of shortage of funds through periodic liquidity planning, taking into account the payment due/maturity of assets and liabilities and projected cash flows from operating activity.

Financial liabilities by maturity date as at 31.12.2022.

(Amounts in USD thousand)	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank loans and borrowings	-	-	-	-	-
Bond liabilities	2 350	-	-	1 282	-
Trade liabilities	37	156	-	-	-
Lease liabilities	-	20	64	-	-
Total	**2 387**	**176**	**64**	**1 282**	**-**

* The measurement at amortized cost does not differ materially from the carrying amounts. The difference between the value at the amount due and the value according to the measurement at amortized cost for the bond liabilities amounts to USD 4.7 thousand.

Financial liabilities by maturity date as at 31.12.2021.

(Amounts in USD thousand)	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank loans and borrowings	7		-	-	-
Bond liabilities	-	-	2 345	-	-
Trade liabilities	54	166	-	-	-
Lease liabilities	-	21	62	-	-
Total	**61**	**187**	**2 407**	**-**	**-**

* The measurement at amortized cost does not differ materially from the carrying amounts. The difference between the value at the amount due and the value according to the measurement at amortized cost for the bond liabilities amounts to USD 3.5 thousand.

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Because of the global character of the business conducted by Silvair, Inc. Group in which most of the revenues are generated in USD and EUR, while most expenses are incurred in PLN, the Group is exposed to risk related to sudden changes in exchange rates, including in particular appreciation of PLN and depreciation of EUR vs. USD. The Group monitors the currency rates and discerns a continuing trend of appreciation of USD vs. PLN. The upward trend in the exchange rate of the dollar and the euro against PLN is good for the Group from the perspective of earning revenues in USD and

EUR, because realized foreign exchange risk results in a nominal increase in sales revenue. When significant revenues appear, the Group will take steps to use instruments hedging sudden exchange rate fluctuations. The impact of changes in exchange rates is shown in the tables in the further part of the note.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not invest any surplus funds in interestbearing assets based on floating interest rates and accordingly it is not exposed to the risk related to changes in interest rates. The principal risk of changes in interest rates is related to debt instruments. In 2022 and 2021, the Group did not use any external debt instruments with a floating interest rate (loans and bonds), the interest rate on which would depend on changes in interest rates. Accordingly, it was not exposed to changes in cash flows resulting from changes in interest rates.

Other price risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market. The Group does not use financial instruments associated with price risk. The Group is not exposed to other price risk.

The Group's financial risk management is coordinated by the Parent Company in close collaboration with the Boards of the subsidiaries. In the risk management process, these are the most important goals:

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

The Group does not execute transactions on financial markets for speculative purposes.

The main financial instruments used by the Parent Company and subsidiaries include loans, cash, short-term deposits and bonds. The Group also holds other financial instruments, such as trade receivables and payables, which arise directly from its activities. The Group does not classify any instruments categorized as loans and borrowings to financial liabilities designated for measurement at fair value through profit or loss. All loans, borrowings and other debt instruments are carried at amortized cost using the effective interest rate. The Group assesses the risk associated with concentration of business partners, foreign currencies, markets and debt instruments as low.

Classification of financial instruments according to IFRS 9

Financial assets by balance sheet item (amounts in USD thousand)	31.12.2022 fair value	31.12.2022 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other comprehensive income	Measured at amortized cost	
Financial assets						
Interest and shares	6	6	-	-	-	6
Trade receivables	391	391	-	-	391	-
Cash	401	401	-	-	401	-

Financial liabilities by balance sheet item (amounts in USD thousand)	31.12.2022 fair value	31.12.2022 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Loans	-	-	-	-	-
Debt securities	3 632	3 632	-	3 632	-
Trade liabilities	193	193	-	193	-

Financial assets by balance sheet item (amounts in USD thousand)	31.12.2021 fair value	31.12.2021 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other comprehensive income	Measured at amortized cost	
Financial assets						
Interest and shares	6	6	-	-	-	6
Trade receivables	271	271	-	-	271	-
Cash	1 261	1 261	-	-	1 261	-

Financial liabilities by balance sheet item (amounts in USD thousand)	31.12.2021 fair value	31.12.2021 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Loans	7	7	-	7	-
Debt securities	2 245	2 245	-	2 245	-
Trade liabilities	220	220	-	220	-

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

Year ended 31.12.2022

Financial assets (amounts in USD thousand)	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Trade receivables	C	-	-	-7	-	-7
Cash and cash equivalents	C	-	-15	-	-	-15
Total		**-**	**-15**	**-7**	**-**	**-22**
Financial liabilities						
Bank loans and borrowings	F	-	-	-	-	-
Leases	F	-2	1	-	-	-1
Bond liabilities	F	-137	-	-	-	-137
Trade liabilities	F	-	-266	-	-	-266
Total		**-139**	**-265**	**-**	**-**	**-404**

Abbreviations used:
A – Financial assets measured at fair value through profit or loss
B – Financial assets measured at fair value through other comprehensive income
C – Financial assets measured at amortized cost
D – Financial liabilities measured at fair value through profit or loss
E – Financial liabilities measured at fair value through other comprehensive income (hedge accounting)
F – Financial liabilities measured at amortized cost

Year ended 31.12.2021

Financial assets (amounts in USD thousand)	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Trade receivables	C	-	-	-13	-	-13
Cash and cash equivalents	C	-	-4	-	-	-4
Total		**-**	**-4**	**-13**	**-**	**-17**
Financial liabilities						
Bank loans and borrowings	F	-23	-	-	-	-23
Leases	F	-3	-3	-	-	-6
Bond liabilities	F	-189	-	-	-	-189
Trade liabilities	F	-	9	-	-	9
Total		**-215**	**6**	**-**	**-**	**-209**

Abbreviations used:
A – Financial assets measured at fair value through profit or loss
B – Financial assets measured at fair value through other comprehensive income
C – Financial assets measured at amortized cost
D – Financial liabilities measured at fair value through profit or loss
E – Financial liabilities measured at fair value through other comprehensive income (hedge accounting)
F – Financial liabilities measured at amortized cost

Sensitivity analysis

As at 31 December 2022 and as at the end of 2021, the Group did not hedge its transactions denominated in foreign currencies.

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

Currency risk 01.01.2022 – 31.12.2022

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

Financial instruments by balance sheet items (amounts in USD thousand)	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Interest and shares	6	-1	-	1	-
Trade receivables	391	-22	-	22	-
Cash, including:	401	-21	-	21	-
Cash in bank	400	-21	-	21	-
Financial liabilities					
Loans	-	-	-	-	-
Trade liabilities	193	10	-	-10	-

Currency risk 01.01.2021 – 31.12.2021

Financial instruments by balance sheet items (amounts in USD thousand)	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Interest and shares	6	-1	-	1	-
Trade receivables	271	-17	-	17	-
Cash, including:	1 261	-120	-	120	-
Cash in bank	1 260	-120	-	120	-
Financial liabilities					
Loans	7	1	-	-1	-
Trade liabilities	220	8	-	-8	-

Financial instruments by currency

Year ended 31.12.2022

Financial assets (amounts in thousands)	USD	PLN	EUR	Total
Interest and shares	-	6	-	6
Trade receivables	171	56	164	391
Cash and cash equivalents, including:	193	83	125	401
Cash in bank	193	82	125	400
Financial liabilities (amounts in thousands)	**USD**	**PLN**	**EUR**	**Total**
Bank loans and borrowings, including:	-	-	-	-
Long-term	-	-	-	-
Short-term	-	-	-	-
Finance leases	-	84	-	84
Bond liabilities	3 632	-	-	3 632
Trade liabilities	91	101	1	193

Year ended 31.12.2021

Financial assets (amounts in thousands)	USD	PLN	EUR	Total
Interest and shares	-	6	-	6
Trade receivables	117	-	154	271
Cash and cash equivalents, including:	57	1 186	18	1 261
Cash in bank	57	1 185	18	1 260
Financial liabilities (amounts in thousands)	**USD**	**PLN**	**EUR**	**Total**
Bank loans and borrowings, including:	-	7	-	7
Long-term	-	-	-	-
Short-term	-	7	-	7
Finance leases	-	83	-	83
Bond liabilities	2 245	-	-	2 245
Trade liabilities	139	81	-	220

Note 33.2 Capital risk management

The Group manages capital to maintain capacity to continue its activity, taking into account the implementation of planned investments, so that it can generate returns for shareholders and bring benefits to other stakeholders, and also to maintain the optimum capital structure to reduce its cost. In line with the market practices, the Group is monitoring capital i.a. on the basis of the debt ratio. The debt ratio is calculated as the ratio of debt to financial capital. Debt is calculated as the sum of financial liabilities (loans, borrowings, leases), while financial capital is the sum of equity and financial liabilities. In order to maintain financial liquidity and credit capacity that would enable the Group to raise external financing at a reasonable cost, the Group assumes that its equity ratio will be maintained at no more than 50%.

Item **(amounts in USD thousand)**	**31.12.2022**	**31.12.2021**
Debt	-	7
Equity	6 510	9 006
Total financial capital	6 510	9 013
Debt ratio	0,00%	0,08%

Note 34 Employment in the Group

Item **(in persons)**	**Average headcount in the period 01.01.2022 – 31.12.2022**		
	Total	**White-collar employees**	**Blue-collar employees**
Silvair, Inc.	-	-	-
Silvair Sp. z o. o.	27	27	-
Sway Sp. z o. o.	-	-	-
Total	**27**	**27**	**-**

Item **(in persons)**	**Average headcount in the period 01.01.2021 – 31.12.2021**		
	Total	**White-collar employees**	**Blue-collar employees**
Silvair, Inc.	-	-	-
Silvair Sp. z o. o.	27	27	-
Sway Sp. z o. o.	-	-	-
Total	**27**	**27**	**-**

Note 35 Entity authorized to audit financial statements

The annual consolidated financial statements prepared as at 31 December 2022 and the annual consolidated financial statements prepared as at 31 December 2021 were audited by Grant Thornton Polska Spółka Akcyjna with its registered office in Poznań, ul. Abpa Antoniego Baraniaka 88E.

The net amount of the contractor's fee for auditing the annual consolidated financial statements for 2022 was PLN 50,000.

The net amount of the contractor's fee for auditing the annual consolidated financial statements for 2021 was PLN 27,000.

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

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

Note 37 Compensation of key management personnel

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

Item (amounts in USD thousand)	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
Szymon Słupik	80	81
Adam Gembala	80	81
Rafał Han	80	81
Total compensation paid and due	**240**	**243**

Compensation of key management personnel on account of share-based payment agreements

Item (amounts in USD thousand)	01.01.2022 –31.12.2022	01.01.2021 – 31.12.2021
Szymon Słupik	-	-
Adam Gembala	-	-
Rafał Han	62	164
Gross compensation paid	**62**	**164**

Total compensation of key personnel

Total compensation of key management personnel (amounts in USD thousand)	01.01.2022 –31.12.2022	01.01.2021 – 31.12.2021
Szymon Słupik	80	81
Adam Gembala	80	81
Rafał Han	142	245
Total compensation	**302**	**407**

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

Note 38 Related party transactions

Transactions with parties related by equity with the Parent Company:

Parties related by equity with the Parent Company:

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

The Parent company directly holds 9% rights to shares in Sway Sp. z o.o. and 100% shares in Silvair Sp. z o.o. which in turn holds 91% shares in Sway Sp. z o.o.

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

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

As at 31 December 2022, there was no receivable for Silvair, Inc. under the loan granted to Silvair Sp. z o. o. On 8 December 2022, there was a conversion of the loan granted by Silvair, Inc. to share capital and supplementary capital of Silvair Sp. z o. o. As at the conversion date, the total value of the granted loan with interest amounted to USD 14,404 thousand. Under the set-off agreement, Silvair, Inc. took up 130,000 new shares with a nominal value of PLN 50 in Silvair Sp. z o. o.

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

As at 31 December 2022, in connection with the loan, Sway Sp. z o.o. posted a liability on account of the loan received from Silvair Sp. z o.o. in the amount of USD 450 thousand. As at 31 December 2021, the balance of liabilities amounted to USD 454 thousand. No loan repayments were made in 2022 and 2021, and the decrease in the carrying amount results from changes in the USD/PLN exchange rate.

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

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

Trade settlements within the Group

As at 31 December 2022 and as at 31 December 2021, Sway Sp. z o.o. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities.

As at 31 December 2022 and as at 31 December 2021, Silvair, Inc. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities.

As at 31 December 2022 and as at 31 December 2021, Silvair, Inc. and Sway Sp. z o.o. posted no mutual trade receivables or liabilities.

In 2022 and 2021, apart from loans, there were no other transactions between the Group's companies.

If transactions or mutual liabilities and receivables occurred in the reporting period between the companies, they would be excluded from these annual consolidated statements.

Entities having personal ties with the Group's companies:

Transactions between entities with personal ties:

As stated in Note 3.7 of the Explanatory notes to the consolidated financial statements, as at 31 December 2022, the subsidiaries Silvair Sp. z o.o. and Sway Sp. z o.o. were parties to a lease agreement for a property in Kraków at ul. Jasnogórska, where the head offices of both companies are located.

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

In financial years 2021-2022, the Group leased space from Centrum Jasnogórska 44 Spółka z o.o. where the total amount of transactions was USD 149 thousand in 2022 and USD 148 thousand in 2021, respectively. The total cost in the period from 1 January to 31 December 2022 reached USD 121 thousand, and in 2021 – USD 120 thousand.

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

As at 31 December 2022 and as at the balance sheet date of 31 December 2021, the Group had no liabilities toward the above mentioned company under the lease agreement.

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

Transactions with the key management personnel and shareholders

Key management personnel:

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

Rafał Han – Chief Executive Officer

Szymon Słupik – Chief Technology Officer, President of the Board of Directors

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

Paweł Szymański – Non-executive Director

Christopher Morawski – Non-executive Director

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

During the reporting period, Trikon LLC – personally related to Christopher Morawski, a member of the Board of Directors of Silvair, Inc. – purchased bonds convertible to shares issued by Silvair, Inc. for the amount of USD 750 thousand.

As at 31 December 2022 and as at balance sheet date of 31 December 2021, Silvair Sp. z o.o. and Sway Sp. z o.o. posted no liabilities toward shareholders or the Board of Directors other than current liabilities on account of compensation and business travels.

Note 39 Minority interest

As at 31 December 2022 and 31 December 2021, there was no capital of minority shareholders.
Information on the above mentioned capital is provided in Note 14.3 Other capital.

Note 40 Subsidiaries with non-controlling interest

As at 31 December 2022 and as at 31 December 2021, there were no subsidiaries in the Group with non-controlling interests.

The annual consolidated financial statements for the period from 1 January to 31 December 2022 (including comparative data) were approved for publication by the Board of Directors on 20 April 2023.

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