Report of the Board of Directors on the activities of the Silvair Group for the first half of the year ended 30 June 2021

Kraków, 30 September 2021

Table of contents

1. General information

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

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

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

2. Operating activities of the Silvair Group

2.1 Key events and achievements of the Group in the first half of 2021

COVID-19 coronavirus pandemic

At the end of 2019, news from China regarding the COVID-19 coronavirus emerged for the first time, and in the first quarter of 2020 the virus spread practically all over the world. From the very beginning, the Board has been monitoring the situation closely and looking for ways to minimize the impact of the pandemic on the Group's operations.

In March 2020, in connection with the COVID-19 coronavirus pandemic, the Parent Company's Board identified the risk of sales disruptions caused by interruption to lighting component supply chains of the partners with whom the Group cooperates, as well as the risk of postponing lighting infrastructure modernization investments by customers due to widespread lockdown. The Board also identified major difficulties with access to capital which – at this stage of commercialization of the Group's products – is an important source of financing of its day-to-day activity.

Consequently, the Parent Company's Board has made a pertinent revision of sales assumptions and decided to decrease the operating expenses, significantly reducing headcount in April 2020 and changing the terms of compensation for the Group's key employees and collaborators. The Group's operating expenses optimization process was carried out in such a way as not to sigificantly disrupt the development of products and the execution of contracts with the Group's key partners, while allowing restoration of the full scope of market activity after the pandemic effects pass. Due to the reduced employment in the field of development, the Board has introduced changes to the product map and the schedule for introducing new products to the market. All these changes have been agreed with the partners in terms of obligations resulting from the concluded agreements as well as activities required to be taken by the Group to implement its strategy and maintain its competitive advantage. Along with the reduction of headcount and the change in remuneration conditions, the Board offered the employees remaining within the Group to join the Option Plan. The introduction of the Option Plan allowed retaining key employees in the Group and maintaining high motivation across all teams.

Despite numerous macro and micro-economic problems caused by the COVID-19 coronavirus pandemic, in the first half of 2021 the Group recorded a significant improvement in key indicators reflecting the level of adoption of the Group's solutions by the lighting industry. In each of the months of the first half of 2021, the number of devices activated with the use of Silvair Commissioning tools was several times higher than in the corresponding period of the previous year. At the same time, an upward trend could be observed over the subsequent months, which allows us to be optimistic about the coming quarters - especially considering the fact that it was in the second half of the year that the company previously achieved better results, which is related to the nature of the schedule according to which modernization projects in the lighting industry are carried out. It is also worth noting that such a significant improvement of the key business indicator was achieved despite the continued effects of the pandemic that were negatively affecting the segments on which the Group's business is focused. These include, above all, problems with the availability of semiconductors that are used on a large scale in many sectors of the economy, including the production of components used in wireless lighting control systems.

Signing of an agreement with Aleo Lighting, Inc.

On 19 January 2021, Silvair Inc. entered into agreement with Aleo Lighting, Inc., based in Cerritos, U.S., 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).

Extension of the scope of cooperation with OSRAM GmbH by providing services within the horticulture lighting market

On 11 February 2021, Silvair sp. z o.o. concluded an annex to the agreement with OSRAM GmbH based in Munich, Germany, dated 8 July 2019, for the provision of services the scope of which includes providing Silvair Commissioning tools for managing lighting installations in the Software as a Service (SaaS) model.

With the signing of the Annex, Silvair expanded the product portfolio covered by the Service Agreement, adding data acquisition and processing services based on lighting infrastructure ("Silvair Connected Services") used by OSRAM on the horticulture lighting market ("Horticulture Lighting Market"), inter alia, under the Fluence brand. Silvair Connected Services, in addition to (i) the sale of Silvair Firmware and (ii) the supply of digital tools for lighting installation management, have thus become Silvair's third revenue component.

Pursuant to the Annex, Silvair expands the sale market for its products by adding a new segment, i.e. the horticulture lighting market which – in the opinion of the Board – might constitute an important source of Silvair revenues in the upcoming years. The key drivers for the expansion of the horticulture lighting market include: (i) a growing number of legislative initiatives on the global market which promote the controlled-environment agriculture and the solid state lighting as part of the controlled plant cultivation; (ii) a growing demand for food; and (iii) an increase in funds available for the development of vertical farming and greenhouses.

Information on the admission of Silvair, Inc. shares to stock exchange trading

On 23 February 2021, the Issuer informed - in its Current Report No. 6/2021 - that on 23 February 2021 the Management Board of the Warsaw Stock Exchange decided to: 1) introduce to trading on the parallel market, as of 25 February 2021, 1,083,757 ordinary bearer shares in Silvair, Inc. with a nominal value of USD 0.10 each ("Shares"), registered by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) under ISIN code USU827061099; and 2) list the Shares in the continuous trading system: (i) in the listing class referred to in § 71 item 5) of Section IV of Detailed Stock Exchange Trading Rules in the UTP system; (ii) under an abbreviated name of "SILVAIR-REGS" and a ticker of "SVRS". On 25 February 2021, in accordance with the decision of the National Depository for Securities No. 206/2021 of 9 February 2021, 1,083,757 common bearer shares in the Company with a nominal value of USD 0.10 each, marked with the ISIN code USU827061099, were registered.

Information on the issue of the Company's shares

In connection with the extension of cooperation and the conclusion of a new Agreement with a consultant, on 24 February 2021 the Company issued 41,400 Common Shares with limited transferability (restricted shares) with a nominal value of USD 0.1 each ("Issue") for the benefit of the Company's consultant, as part of the Company's Stock Plan (2016 Stock Plan) described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 25 June 2018 ("Stock Plan"). The Annex concluded between the Company and its consultant provides for the award of 2,300 shares on each 7th day of the month following 7 December 2020 until 7 June 2022, provided that on the date of granting these shares the consultant maintains the Continuous Service Status within the meaning of the Agreement.

Signing of an agreement with Steinel Solutions AG.

On 17 March 2021, Silvair, Inc. concluded an agreement with Steinel Solutions AG based in Switzerland, 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 also undertook to grant a license for the use of the Firmware, and to provide related services.

Signing of an agreement with EnOcean GmbH

On 10 June 2021, Silvair, Inc. concluded a marketing cooperation agreement with EnOcean GmbH based in Oberhaching, Germany, relating to the EnOcean Switch Mesh Proxy Server specification developed by Silvair based on the Bluetooth Mesh Model. Based on the guidelines from the above-mentioned Silvair documentation, it is possible to configure EnOcean switches for use in smart lighting installations that utilize the Bluetooth Mesh technology, and thus the Silvair technology. The above may significantly contribute to accelerating the adoption of Bluetooth Mesh technology on the market. EnOcean is a market leader in wireless and battery-free switches that are powered by kinetic energy generated during everyday use of devices. It has introduced and continues to develop a number of breakthrough solutions in the field of powering wireless devices with energy coming from their immediate environment. It can be expected that further strengthening of cooperation between EnOcean and the Bluetooth Mesh ecosystem, which is reflected in the agreement signed in June, will bring a number of marketing and business benefits for both parties.

Patents

In the period from 1 January 2021 to 30 June 2021, the United States Patent and Trademark Office applied patent protection to one new solution submitted by companies from the Silvair Group. In total, the number of innovative solutions covered by patent protection in the Silvair Group has increased in 2021 to 23.

2.2 Material events after the end of the reporting period

Signing of an agreement with EiKO Global, LLC.

On 14 September 2021, Silvair Inc. entered into agreement with EiKO Global, LLC. based in Shawnee, U.S., 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).

Silvair technology with IoXt security certificate

On 3 August 2021, Silvair Firmware received a security certificate from the IoXt organization. The IoXt organization brings together leaders in the technology industry and was established to standardize security requirements for devices and solutions belonging to the Internet of Things (IoT). Granting the IoXt certificate for Silvair Firmware confirms that it meets the highest standards in the field of digital security. The Silvair technology has been certified in the "Certified Component" category, which means that partners' devices using Silvair Firmware can also be certified as compliant with the IoXt requirements.

Silvair technology with prestigious Sapphire Awards

On 24 August 2021, the technology developed by the Group was awarded the prestigious Sapphire Awards which are handed out each year by the opinion-forming LEDs Magazine published in the United States.

In the category Design Excellence in Networked Lighting Controls Award for LLLC, the award was granted to the Energy Management Collaborative company for the implementation of a lighting modernization project in an office building in Minnesota, which was completed at the end of 2020. The modernization of the lighting infrastructure covered 17 floors on which approximately 3,900 smart devices with Silvair Firmware were installed.

In addition, McWong International - a partner of Silvair, Inc. - received an award in the Smart and Connected SSL Enabling Technologies category for the TruBlu lighting control system which is based on the technology developed by the Group. The winners of the awards were announced at the annual Strategies in Light conference which this time was held online due to the pandemic situation.

2.3 Description of the Silvair Group and its development directions

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

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

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

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

Silvair also develops tools that allow the analysis and use of data generated by lighting infrastructure - including both operational data related to the current functioning of the installation (*Connected Lighting*), as well as data generated by sensors that are part of the lighting infrastructure (*Building Intelligence*). The said tools allow the provision of innovative services that can be offered, among others, in a subscription model. Appropriately processed operational data related to the current functioning of the lighting installation make it easier for commercial space managers to automate the processes related to the management of lighting infrastructure, which directly translates into maintenance costs reduction (through i.a. automatic monitoring of the condition of devices, monitoring of the level of electricity consumption, or automation of mandatory emergency lighting tests).

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

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

2.4 Board of Directors

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

Rafal Han, Chief Executive Officer

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

Szymon Słupik, Chief Technology Officer (CTO)

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

Adam Gembala, Chief Financial Officer (CFO)

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

Paweł Szymański, Non-executive Director

He graduated from the SGH Warsaw School of Economics. A securities broker holding Polish, British and U.S. licenses. Associated with such institutions as Wood&Company, Schroder Salomon Smith Barney,

Citigroup, Dom Maklerski Banku Handlowego. He served as a member of the management boards of such companies as PKN Orlen, CTL Logistics, ICENTIS, Ruch, Marvipol, Netia, ABC Data. Currently, he is the President of the Management Board of Krosno Glass, and the Member of the Supervisory Board of Alior Bank.

Christopher Morawski, Non-executive Director

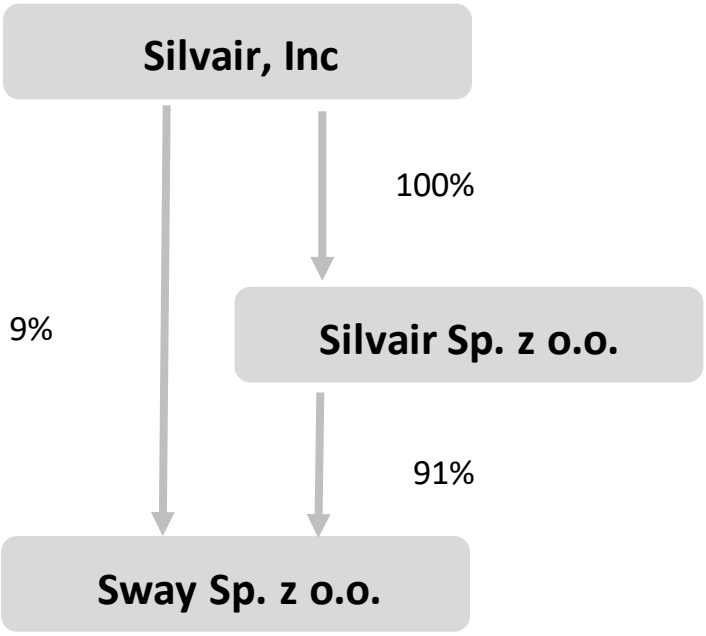
A graduate of McGill University in Montreal. An experienced manager with many years of experience in the field of international capital and financial transactions, strategic product development, market analysis and modeling of company financing. In the past, he dealt with technical specification and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

Composition of the Board of Directors as of 30 June 2021

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

2.5 Structure of the Silvair Group

The Group comprises Silvair, Inc., which is the parent company, and two subsidiaries: Silvair Sp. z o.o and Sway Sp. z o.o ("Subsidiaries"), which are consolidated by the Company. Presented below is the structure of the Group as at 30 June 2021, showing the Company's percentage share in the share capital of each of the Subsidiaries, resulting from the number of shares held in them.



Silvair, Inc. is the Group's Parent Company preparing consolidated financial statements. As at 30 June 2021, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o.

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

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

2.6 Operating segments

The Group focuses its activities on three main market segments:

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

Lighting Control

In the lighting control segment, the supply chain begins with manufacturers of lighting components such as drivers, controllers, sensors, etc. These entities supply their products directly to luminaire manufacturers, although distribution channels may also include wholesale networks and energy service companies (ESCOs). Luminaire manufacturers specialize in producing structural components of luminaires in which lighting components from other suppliers are then placed and connected. Providers of lighting control solutions and complete lighting control systems are the next link in the supply chain. They acquire components or complete luminaires directly from the above-mentioned suppliers, and then integrate individual components with each other, while also implementing lighting control logic. Ready-to-use solutions and systems are usually distributed through a network of own vendors who cooperate closely with enterprises responsible for design specification. The buyers of lighting control systems primarily include property owners and property managers. They usually do not choose specific lighting solutions for their buildings, relying in this regard on the knowledge and experience of companies that specialize in providing complete lighting control solutions. It should be noted that the activities of many entities go beyond the framework defined above, which often results in a significant shortening of the above-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 Lighting Firmware is firmware based on the global Bluetooth Mesh standard. After integration with a lighting component, it enables wireless communication with other devices using the Bluetooth Mesh technology. This, in turn, opens up multiple new possibilities with regard to lighting control, monitoring of the lighting infrastructure operation, and the use of data generated by lighting infrastructure. A component with installed firmware allows e.g. autonomous control of light intensity and color temperature, as well as the implementation of advanced scenarios for intelligent lighting control, such as automatic occupancy-based control (occupancy sensing) or control based on natural light availability (daylight harvesting). Such scenarios can be combined with each other to maximize energy efficiencies. In the case of smart lighting networks, these and other advanced lighting control strategies can be freely configured and optimized using intuitive software - e.g. an application installed on a mobile phone or tablet. The software provided by Silvair is designed in such a way that its operation does not require lighting control expertise, as is the case with traditional cable systems. Silvair Lighting Firmware is offered to lighting component manufacturers in a one-time payment model for each activated firmware license.

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

Smart lighting services (Connected Lighting)

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

Smart building management (Building Intelligence)

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

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

The Group plans to develop a wide range of tools enabling the provision of innovative services such as monitoring of environmental conditions, occupancy monitoring, indoor navigation, or asset tracking. These solutions will be offered primarily to owners and managers of commercial buildings in a subscription model.

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

The description of transactions executed between related entities is provided in Note 38 to the Interim Consolidated Financial Statements of the Silvair Group for the first half od 2021. All transactions with related entities were executed on an arm's length basis.

2.8 Business development

Business activity

The business activity of the Silvair Group in the period covered by this report focused on the areas that have been identified as key to the market success of the Bluetooth Mesh standard and the products offered by the Group. These areas include:

- concluding new partnership agreements with manufacturers of lighting components in order to increase the base of devices compliant with the Bluetooth Mesh standard that are available on the market,
- developing cooperation with suppliers of lighting control solutions in order to increase the number of lighting projects based on the Bluetooth Mesh standard and on the solutions offered by the Group,
- further development of the offered products by adding functionalities that will allow the Group's partners to enter new markets and offer innovative solutions in the field of lighting control and utilization of data generated by smart lighting networks,
- increasing the awareness of the lighting industry regarding the unique technological capabilities of the Bluetooth Mesh standard and the benefits resulting from its global interoperability.

The consistent pursuit of the goals set within the above-mentioned areas seems to be producing the expected results, which is confirmed by a significant improvement in the most important indicators reflecting the level of adoption of the Group's solutions by the lighting industry. The Group continues to perceive the number of devices activated with Silvair Commissioning tools as the most important of these indicators due to the fact that it best represents the actual use of smart components with Silvair Firmware in commercial lighting projects (which cannot be said, for example, about the number of components with Silvair Firmware manufactured by the Group's partners, as they are sent to warehouses and wholesalers in the first place). The significant increase of this indicator in the period covered by this report confirms the correctness of the Group's business assumptions, and illustrates the pace of market adoption of technological solutions offered by the Group. In each of the months of the first half of 2021, the number of devices activated with the use of Silvair Commissioning tools was significantly higher than in the corresponding period of the previous year. At the same time, an upward trend could be observed with the passage of subsequent months, which allows us to be optimistic about the coming quarters - especially considering the fact that it was in the second half of the year that the company previously achieved better results, which is related to the nature of the schedule according to which modernization projects in the lighting industry are carried out. It is also worth noting that such a significant increase in the key business indicator was achieved despite the occurrence of unfavorable global phenomena affecting the segments on which the Group's business activity is focused. These include, above all, the global COVID-19 pandemic and problems with the availability of semiconductors used on a large scale in many areas of the economy, including the production of components used in wireless lighting control systems.

Along with the development of the Group's business, the differences in the functioning of the two key markets for the Group – the European market and the North American market - become increasingly visible. The Group’s driving force on the European market are the companies Osram and Sylvania - leaders in the lighting industry with a global reach and a strong market position. Together, they generate the vast majority of the Group's revenues on the European market, consistently improving sales results and increasing forecasts for the coming quarters and years. At the same time, the great recognition of these brands in the

lighting industry, their strong market position and good reputation in terms of the quality of the offered products significantly help to increase trust both in the technological solutions developed by the Group and in the Bluetooth Mesh standard itself. This trust also increases as a result of multiple promotional and marketing activities that are undertaken by the above-mentioned companies on the European market. Another factor that matters here is the strong involvement of these key Group's partners in the process of training specialists from the lighting industry with regard to the capabilities of the Bluetooth Mesh standard and the use of tools for configuration and management of wireless lighting control systems that the Group provides. For example, OSRAM invests significant resources in a training program for installers cooperating with it, allowing these installers to gain high competence in the efficient and effective use of the tools developed by the Group. In addition, the company conducts paid training courses available to all interested parties, thus sharing knowledge also with specialists who are not part of its regular associates network. Convincing lighting industry specialists to the superiority of wireless lighting control systems over traditional cable systems is an extremely important factor in the pursuit of further popularization of the Bluetooth Mesh standard, therefore intensive training activities conducted by OSRAM and Sylvania on the European market significantly contribute to increasing industry awareness about the benefits of using the Group's solutions in the implementation of lighting projects.

It is also worth noting the favorable trend observed on the example of projects implemented by the Sylvania company. In the first half of 2021, one could observe a systematic increase in the number of devices with Silvair firmware that were used in the implementation of subsequent projects. This proves that the scale of projects implemented by this important European partner increases over time. This not only translates into growing revenues of the Group, but above all it proves the company's growing trust in technological solutions offered by Silvair. Sylvania described in detail some of the many projects carried out in the first half of the year in its case study materials, putting particular emphasis on the impressive energy savings that have been achieved through the use of solutions developed by the Group. One of the projects described this way was the modernization of lighting at the Brussels headquarters of Atalian, one of the major global providers of property management services. Taking into account the progress made so far by the Group's key European partners and their optimistic forecasts regarding the future, the Group expects further dynamic development of its business in this area.

The North American part of the Group's business is also developing dynamically, but its specificity differs significantly from the specificity of the European market. In the American market, the Group does not have a leading partner that would alone be responsible for a significant part of its revenues. Instead, the Group provides its technology to multiple smaller entities with which partnership agreements have been signed over the past years. These include innovative and dynamically developing companies, but the scale of their operations cannot be compared with the scale of operations of lighting giants with whom the Group cooperates on the European market. Each of these companies invests funds to promote solutions based on Silvair technology and train specialists on how to use the tools developed by the Group, but naturally these activities do not have such an impressive impact as in the case of European market leaders. As a consequence, a significant part of the burden related to the promotion of solutions based on the Bluetooth Mesh standard and education of lighting industry experts needs to be borne by the Group. Further work is required to continue promoting the use of the Bluetooth Mesh standard in lighting applications, supporting partners in achieving their business goals, tightening cooperation with industry organizations, and adapting the offered solutions to the specificity of the local market (i.a. by meeting the requirements specified in the so-called energy codes and other regulations related to the energy efficiency of buildings).

Correct identification of the differences between the European and North American parts of the business and the ability to address the challenges related to the specificity of each of these markets will be key to

ensuring further harmonious development of the Group's business. In this context, close technological cooperation with key partners in both these markets, listening to their business needs, and working together to further popularize the Bluetooth Mesh standard are particularly important.

Development of products

The above-mentioned close technological cooperation with key partners is carried out primarily in the area of development of products offered by the Group. When preparing the schedule and scope of works related to the provision of new and improvement of existing functionalities, the Group is guided – to a large extent – by the needs and suggestions of its key partners. With their decades of experience in the lighting industry and direct cooperation with the key links in the lighting business supply chain, they are a source of invaluable knowledge about the needs of particular market participants and possible ways of satisfying these needs. For this reason, the Group's employees regularly meet employees of key partners at videoconferences, during which they exchange knowledge and insights related to further directions of product development, functionalities expected by the market, and global trends in the lighting industry. As a result of these meetings and the Group's internal research, short- and long-term development plans for the Group's products are drawn up.

In accordance with these plans, in the first half of 2021 particular emphasis was placed on the development of functionalities and tools that allow diagnosing and solving issues related to the proper functioning of wireless lighting control systems based on the Bluetooth Mesh standard. Wireless communication technology opens up enormous opportunities in lighting control applications, but it also has its own specificity and certain limitations related to the way radio waves propagate. With the increasing number of projects using Silvair technology, it could be noticed that installers configuring smart lighting networks were completely powerless when problems occurred with regard to e.g. connectivity between devices due to the specificity and configuration of a given space. This resulted in delays in the implementation of some projects and numerous inquiries sent to the customer support department. In response to repeated situations of this type, the Group began intensive work on a number of solutions that would allow installers to independently solve problems and thus handle their projects more efficiently. Many of such solutions were made available during the period covered by this report. These include, among others, more capabilities in terms of reporting hardware errors from the level of Silvair Firmware, a number of improvements in the field of automatic testing of the quality of wireless connections in the lighting control network from the level of the mobile application, and further improvements in the functionality that allows testing the network configuration before its commissioning. Further improvements have also been introduced to accelerate the commissioning process (including the ability to quickly create duplicate lighting zones, which is particularly useful when implementing large-scale projects) and to improve the comfort of work with applications for commissioning and managing the lighting infrastructure. These adjustment were also introduced – to a large extent – in response to specific inquiries and suggestions from the Group's partners.

Throughout the subsequent months of the first half of 2021, intensive work was also carried out on the development of several key functionalities that the Group plans to make available to its partners in the second half of this year. These include, among others, a feature that allows users to automate the operation of the lighting system based on a planned time schedule (*scheduling*). The Group already offers this functionality in a version that requires the use of a gateway device, which is a standard approach in the segment of wireless lighting control. However, providing this functionality also in installations that do not use gateways is extremely attractive for small and medium-scale projects, as it allows for full automation of lighting while reducing the costs associated with the purchase and operation of a gateway device.

At the turn of the third and fourth quarter, the Group also plans to release the first package of services related to the acquisition and processing of data based on the lighting infrastructure (*Connected Services*) - including services for monitoring energy consumption and monitoring of space occupancy, as well as API services that allow the integration of the lighting control system with commonly used building automation systems.

Marketing activities

Due to the COVID-19 pandemic, the Group's marketing activity in the first half of 2021 was still limited, and focused mainly on online activities. Trade fairs and conferences that did not take place in 2020 as a result of the pandemic were moved to the second half of 2021 (e.g. LightFair International) or to 2022 (Light and Building).

In the reporting period, the Group continued its marketing and educational activities with regard to promotion of projects implemented by its partners. As part of these activities, a series of case study materials was published, describing i.a. the world's largest implementation of Bluetooth Mesh technology in an A-class office building in Minnesota, as well as projects implemented in the Technology Center in Yokohama, in an underground car park in Australia, in warehouse buildings of the Roy Miller Freight Lines company in California, in office and warehouse buildings of the Les Grands Moulins de Paris company in Paris, in Brussels office of Atalian, and in a government building in Boeverbos, Belgium. These materials were distributed through the Group's own marketing channels, its Partners' marketing channels, and in leading industry media.

In order to promote the Partners' solutions, a special search engine has been implemented on the website **www.silvair.com**, which allows users to quickly find lighting components tailored to design requirements. The goal was to accelerate the process of project planning and implementation.

In the reporting period, the Group also focused its activities on acquiring new business partners, introducing its technology to a completely new market - horticulture (lighting for greenhouse horticulture). Information on partnerships with Aleo Lighting, Steinel Solutions AG, Sunricher and Fluence have been published in the Group's own marketing channels, as well as in industry and business media. The number of new acquired partners and new projects implemented with the use of Silvair technology are among the business value growth factors which the Group published as part of the webinar organized by the portal *Strefa Inwestorów* (*Investors' Zone*).

3. Characteristics of the market on which the Group operates

3.1 Smart lighting market drivers

Dynamic development of the LED lighting market

Over the past decade, the LED technology has dominated the lighting market. Widely used in new construction, it is quickly replacing obsolete solutions also in existing buildings. According to the analysis of Goldman Sachs, in 2025 the share of LEDs in the global lighting market may be as high as 95%, compared to just 1% share recorded in 2010. Such a quick pace of this global technological shift results from the fact that it is undoubtedly the most effective of the currently available lighting technologies, which at the same time offers incomparably more possibilities with regard to lighting control. What guarantees a further increase in the share of the LED technology in the global market is not only its high utility value compared to other technologies (e.g. higher quality of emitted light, longer lifetime, lower electricity consumption), but also the fact that it is favored by legislative bodies - which is a direct consequence of higher energy efficiency of LED products. LEDs emit negligible amounts of heat, while e.g. traditional incandescent lamps release up to 90% of their energy in this form. For compact fluorescent lamps, this ratio amounts to around 80%. As a result, we can observe a long-lasting trend of favoring LED technologies by governments of individual countries, as well as political and economic unions. For example, already in September 2009 the European Union introduced a ban on the sale of traditional, energy-intensive tungsten filament bulbs with a power rating of 100 W or more. Regulations from subsequent years eliminated other conventional light bulbs from the market, while tightening the energy standards for compact fluorescent lamps. In the second half of the last decade, the European Commission tightened regulations also on halogen lamps, eventually banning their production and sale in September 2018. EU regulations in this regard are among the most restrictive, but similar resolutions aimed at increasing the energy efficiency of lighting products have been adopted in recent years almost worldwide, also in countries with a lower degree of economic development.

Increasing the energy efficiency of buildings

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

The potential for energy savings in the segment of built-up infrastructure is very large considering how much of the world's energy production is consumed by buildings. Technological progress in the area of key building infrastructure enables increasingly rational energy management, which is reflected in construction trends observed especially in highly developed countries. One example is the zero-energy building concept which describes a facility with zero net energy consumption and zero carbon dioxide emissions per year. These trends are justified not only by environmental motives, but also purely economic ones – a more rational management of energy resources translates directly into cost reduction, although a return on modernization

investments is not always possible in a short period of time. Sustainable buildings are usually also more occupant-friendly, which in turn leads to higher productivity and satisfaction. At the same time, it is worth noting that the vast majority of existing buildings use solutions that do not meet current energy efficiency standards applicable to new construction. And in the case of existing buildings, infrastructural upgrades disrupt everyday operations while requiring significant spending. Technologies that can improve energy efficiency without requiring great amounts of labor and resources are therefore particularly desirable.

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

It should also be mentioned that, according to the estimates of the European Commission, commercial buildings are on average about 40% more energy-intensive than residential buildings (on average 250 kWh/m2 compared to 180 kWh/m2). The share of lighting in total energy consumption is also significantly higher in the commercial segment. This means that in commercial spaces, the possibilities for improving the energy efficiency of lighting are much greater - especially through the implementation of advanced lighting control strategies whose effectiveness in reducing energy consumption is proven and indisputable.

Legal regulations

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

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

In the United States, these requirements vary from state to state, although most of the applicable energy codes are based on one of two national standards for the energy efficiency of commercial buildings. These are:

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

In addition, some of the states have decided to introduce their own energy codes. One example is California which was the first state to introduce minimum energy efficiency standards as early as in 1974. This is also where America's first energy regulation commission - California Energy Commission - was established. Currently, every three years the body publishes the Title 24 standard which is one of the most demanding energy codes as far as lighting control is concerned. It should be mentioned that as a result of these longterm efforts to improve energy efficiency, California today has one of the lowest energy consumption rates per capita.

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

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

Support and grant systems

In addition to the mandatory legal requirements described above, there are multiple support, relief and grant systems around the world that aim to encourage building owners and managers to increase the energy efficiency of building installations, including lighting systems. The possibility of obtaining significant tax reliefs or direct subsidies for modernization projects strongly increases the attractiveness of such retrofits from an economic point of view, contributing to faster adoption of innovative, energy-efficient technologies in the construction sector. In the United States, such programs function on federal, state and local levels. The most attractive subsidies are available for projects implemented in accordance with the stringent

requirements of certification programs such as DLC, Energy Star or LEED. They impose stringent requirements relating to the energy efficiency of building installations, while promoting the use of innovative technologies to reduce the energy consumption of buildings. For example, the DLC certification has recently begun to include completely new criteria dedicated to smart lighting systems. This resulted in the arrival of first rebate programs for projects utilizing wireless control systems to increase the energy efficiency of lighting installations.

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

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

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

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

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

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

3.2 Smart lighting market barriers

Lack of standardization and interoperability

Over the past decade, the main roadblock to adoption of smart lighting technologies has been the lack of standardization with regard to solutions available on the market. Suppliers have offered "closed" proprietary systems based on various, often additionally modified wireless technologies. Due to the lack of a global standard, smart lighting components from different manufacturers could not operate with each other, while customers who decided to implement a "closed" lighting control system had to face a significant business risk. Product line discontinuation or a bankruptcy of a system supplier deprived them of the necessary technological support (cloud infrastructure, software updates eliminating potential bugs, availability of components for faulty device replacement, etc.). Same risks applied to the manufacturers of lighting components who used the services of third party companies supplying a wireless communication technology for their products. A potential bankruptcy of a supplier of proprietary wireless solutions would leave both the manufacturer and its customers without the technological support that is necessary to continue using products based on these solutions. Since lighting companies have never dealt with software development and do not have the necessary resources and technological know-how, the above risks prevented them from entering the market of wireless lighting control. The only effective method to solve the above problems is the widespread adoption of a global, open and transparent wireless communication standard for lighting applications. The problem of lack of standardization and interoperability relates not only to the wireless communication technology itself, but also e.g. to software interfaces and formats of data generated by smart devices. The latter issue seems particularly important for unlocking the full potential of smart lighting solutions. The market is still characterized by strong technological fragmentation, although recently there have been multiple efforts and solutions aimed at introducing a certain degree of standardization. They relate both to the wireless communication technology used in lighting products (e.g. the adoption of the Bluetooth Mesh standard), and to the methods of managing the data generated by these devices (e.g. the announcement of the D4i certification program by the DALI Alliance organization). Without further intensification of these efforts, the smart lighting market development will remain hindered, and the potential of smart solutions will remain untapped.

Financial barriers

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

Lack of knowledge and trust

Before the emergence of smart lighting technologies, the lighting industry had been functioning in accordance with decades-long paradigms. Wireless control solutions introduce a number of significant

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

Global COVID-19 pandemic

The entire world is facing such far-reaching consequences of the COVID-19 pandemic that it is impossible not to take them into account in forecasts regarding the further development of smart lighting technology. Still in a relatively early stage of commercialization, this segment is highly sensitive to turbulence in the global economy. Its further dynamic development requires high activity and commitment from multiple industry stakeholders - manufacturers, distributors, industry organizations, research bodies, etc. In the face of the severe consequences of the pandemic – such as widespread lockdown, business restrictions and deteriorating macroeconomic indicators – this activity may be suppressed and the involved entities may have to allocate their resources elsewhere. Given that the long-term economic effects of COVID-19 are not yet fully known, it is difficult to estimate what will be the condition of individual sectors of the economy after the pandemic ends. However, there are legitimate concerns that enterprises' expenditure on research and development might decrease, which could have a negative impact on the pace of adoption of smart lighting technologies. Further development of the smart lighting market may also be adversely affected by disruptions in the supply chains, which have been observed in various sectors of the economy since the beginning of the pandemic. An example is the shortage of semiconductors which at the turn of 2020 and 2021 disrupted production in many industries and limited the revenues of technology companies. Prolonged problems in the semiconductor market may directly hit the smart lighting segment, causing a shortage of components used in wireless lighting control systems. The restrictions introduced in 2020 in the United States and Europe also caused a number of difficulties with regard to the implementation of modernization projects. This was due to many factors - from lockdown preventing the implementation of some projects, through limitations in investment budgets of commercial space owners, to staff shortages in installation companies caused by illness or quarantine. Considering that the implementation of more and more ambitious commercial projects is key to building appropriate awareness among entities in the lighting industry, there is a concern that the protracted state of the pandemic may slow down the pace of commercialization of smart lighting technology.

3.3 Bluetooth Mesh – adoption of the standard

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

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

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

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

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

3.4 Silvair's cooperation with standardization bodies

Bluetooth SIG

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

DALI Alliance

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

ANSI C137

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

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

DLC

DLC (Design Lights Consortium) is an organization that brings together the programs promoting the increase of energy efficiency among energy suppliers in North America. DLC publishes the Networked Lighting Controls specification (NLC) which is the basis for including systems that meet specific energy requirements in the official Qualified Product List (QPL). The latest version of the specification – NLC5 – contains requirements for detailed energy consumption reporting by lighting installations. These requirements will be made consistent with the requirements of the ANSI C137.5 standard following its ratification this year. Systems included in the QPL list are entitled to a simplified path to obtaining a grant for their purchase and implementation. Until now, only proprietary systems from individual suppliers could be found on the QPL list. Silvair works closely with DLC to enable NLC qualification for components from different manufacturers that make up a complete system. We have obtained DLC's approval for using the Silvair brand as a brand for a system that any component manufacturer can refer to as long as a given component is based on the Silvair firmware. This agreement means the emergence of a fast track for obtaining DLC QPL qualification for our partners. The first applications for DLC qualification have already been processed, as a result of which Silvair's partners - McWong, Linmore LED and Aleo Lighting - have been included in the official QPL list. In 2021, the Silvair Group continued its efforts to obtain the full DLC NLC5 qualification for components based on Silvair technology, which would allow all of the Group's partners to participate in projects that require compliance with this program, while at the same time taking advantage of the rebates available provided that the requirements of the DLC organization are met. The Group was given consent to submit a certification application during the next call for applications, which will be held in September this year.

OneDM

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

3.5 Risk related to our business

The Silvair Group is exposed to a number of risks that may exert an unfavorable effect on its operations, financial and operating standing, as well as its brands and reputation. On a regular basis, the Board of Directors reviews the market environment and risk factors to which the Silvair Group is exposed. New projects and contemplated major transactions are subject to thorough scrutiny. If any regulatory amendments are enacted, the Group's companies adjust their business accordingly. The following are the primary risks that, if materialized, may exert a significant impact on the Group's business. Besides the factors mentioned in this section, the Group is also exposed to financial risks described in Note 33 of the Silvair Group's condensed consolidated financial statements for the first half of 2021.

Risk associated with the COVID-19 coronavirus pandemic

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

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

The restrictions introduced in 2020 and 2021 in the United States and Europe also caused a number of difficulties with regard to the implementation of modernization projects. This was due to many factors - from lockdown preventing the implementation of some projects, through limitations in investment budgets of commercial space owners, to staff shortages in installation companies caused by illness or quarantine. Considering that the implementation of more and more ambitious commercial projects is key to building appropriate awareness among entities in the lighting industry, there is a concern that the protracted state of the pandemic may slow down the pace of commercialization of smart lighting technology.

Risk associated with strategic objectives and growth management

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

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

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

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

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

Risk associated with the dissemination of the Bluetooth mesh technology

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

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

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

Risk of product concentration

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

Risk associated with the work of development teams

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

Risk of failure to attract qualified employees

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

Risk associated with significant increase in labor costs

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

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

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

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

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

Risk associated with development of competition

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

Risk associated with intellectual property protection

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

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

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

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

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

Risk associated with breakdowns or break-ins into IT systems

Breakdowns of IT systems or infrastructure may restrict or stop proper operations of the Group, or its ability to offer products and services, temporarily or permanently. IT systems may be susceptible to physical or

electronic break-ins and other threats, which may result in, without limitation, the Company's loss of access to the information stored in its IT systems or access to such information having been obtained by unauthorized third persons. Such actions may also damage the Company's reputation or lead to substantial expenses.

Risk associated with absence of insurance protection

On 11 December 2020, Silvair sp. z o.o., also acting as a subcontractor of Silvair, Inc. within the scope of concluded commercial agreements, executed a third party liability insurance contract with AVIVA Towarzystwo Ubezpieczeniowe S.A. The insurance covers third party liability in respect of personal and property damage caused in connection with the possession and use of assets as well as the business run by Silvair sp. z o.o., as specified in the insurance contract, including damage caused by a product or service (including that caused by a rendered and delivered service) and presence of third parties on the premises in connection with the performance of insured professional activities, and in respect of damage resulting from shortcomings in the performance of professional activities in connection with the provision of services specified in the insurance contract. For its part, Silvair, Inc. does not have direct insurance protection that would cover any damage caused by such a company through its direct operations.

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

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

Risk associated with court and administrative proceedings

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

Risk associated with absence of adequate internal control procedures and systems

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

Risk related to the economic and political situation

The efficiency of the Company's business is - and will even more so be in the future - dependent on, without limitation, the rate of economic growth, consumption level, fiscal and monetary policy, inflation and many other macroeconomic parameters having an impact on the economy and an indirect impact on the

commercial real estate sector, considered by the Company as key for the development of its operations in the smart lighting segment, in the countries where the Company distributes its products or provides its services.

Foreign exchange risk

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

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

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

Risk associated with patent trolls

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

Risk associated with limited capital and future capital needs

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

Risk associated with lost liquidity

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

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

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

Risk of unexpected trends

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

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

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

4. Financial standing of the Silvair Group

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

The interim condensed consolidated financial statements of the Group cover the period of 6 months ended on 30 June 2021 and have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements have been prepared in accordance with the historical cost principle, except for financial assets measured at fair value through financial result or other comprehensive income, financial assets measured at amortized cost, financial liabilities measured at fair value, and financial assets measured at amortized cost.

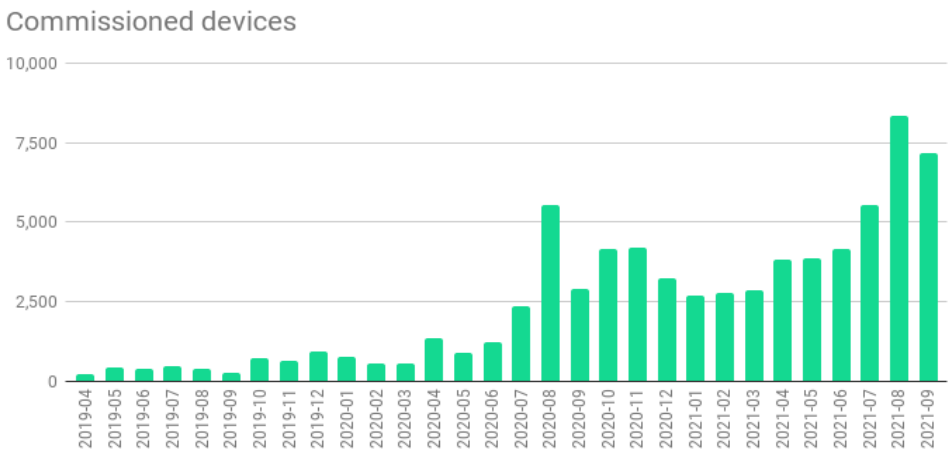
The interim condensed consolidated financial statements do not contain all the information that is disclosed in the annual consolidated financial statements prepared in accordance with IFRS. Therefore, they should be read together with the Group's consolidated financial statements for 2020 which were made public on 16 April 2021.

4.2 Going concern assumption

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

The first half of 2021 brought a significant improvement in the most important indicators reflecting the level of adoption of the Group's solutions by the lighting industry. The Group continues to perceive the number of devices activated with Silvair Commissioning tools as the most important of these indicators due to the fact that it best represents the actual use of smart components with Silvair Firmware in commercial lighting projects.

The correctness of the Group's business assumptions is confirmed by the fact that in each of the months of the first half of 2021, the number of devices activated with the use of Silvair Commissioning tools was several times higher than in the corresponding period of the previous year. At the same time, a strong upward trend could be observed throughout the subsequent months, which continued also after the end of the reporting period. The dynamics of growth is shown in the chart below, which presents monthly statistics in terms of the number of devices activated with the use of Silvair Commissioning tools from the beginning of commercialization of solutions developed by the Group until the date of publication of this report.



The dynamics of the growth in the number of activated devices combined with the dynamics of the growth in the number of components with Silvair Firmware available on the market and the number of implemented projects that use such devices show that 2021 opened another chapter in the Group's history. And while it is still too early to talk about its full business maturity, it is already reasonable to talk about a certain technological maturity that the Group's wireless lighting control solutions have achieved.

When commencing commercialization of its products in 2019, the Group was exposed to a number of risks directly related to the high level of innovation of the offered solutions. Wireless lighting control systems had been present on the market already for some time, but the lighting industry was then largely disappointed with wireless solutions, i.a. due to their functional limitations and the lack of standardization with regard to applied radio technologies. The Bluetooth Mesh standard solved these problems, but convincing lighting professionals who had relied on traditional wired technologies for decades turned out to be a challenge. In 2021, however, the perception of wireless technologies is completely different, and the Bluetooth Mesh standard does not seem to have serious competition in the market for wireless lighting control systems. The best proof of this is the very strong commitment of leading lighting industry organizations to the development and further standardization of solutions based on the Bluetooth Mesh standard.

At the time of the commencement of commercialization of the Group's products, there were also justified concerns that the largest companies in the lighting market would not want to build products based on the Bluetooth Mesh standard. In the past, industry leaders often preferred to develop their own "closed" technologies rather than co-create a global standard with a multitude of smaller competitors. Contrary to smaller companies, the largest entities have the resources that allow them to go their own way, benefiting from the independence they achieve. However, in 2021, the Bluetooth Mesh ecosystem includes not only small and medium-sized companies, but also the leaders of the lighting industry, such as Osram, Sylvania, Zumtobel or Steinel. Each of these brands has many years of experience in developing innovative products, but nevertheless they have established business cooperation with Silvair in order to be able to implement solutions based on Bluetooth Mesh as soon as possible. This shows not only how much work and competences are required to develop software solutions based on the Bluetooth Mesh standard, but also how much recognition this standard and Silvair products have won among the largest players in the lighting market.

In 2019, it was also reasonable to assume that with the adoption of the Bluetooth Mesh standard, entities with powerful resources will appear on the market and will be able to develop and commercialize similar wireless lighting control solutions based on this new global standard faster than the Group. There seemed to be a risk that these entities could take over a significant part of the emerging market and become a serious competition for the Silvair brand. Currently, however, the Group remains the undisputed leader in lighting control solutions based on the Bluetooth Mesh standard. There are companies that create products based on Bluetooth Mesh, but there is practically no other entity that would provide such a comprehensive offer in the field of dedicated software solutions to such a wide group of recipients from the global lighting industry. For a manufacturer of components or luminaires who would like to enter the market as soon as possible with a finished product compliant with the Bluetooth Mesh standard, cooperation with Silvair is practically the only choice that guarantees the effective implementation of these plans and fast acquisition of new markets.

The above factors confirm the achievement of the aforementioned technological maturity not only by the Bluetooth Mesh standard, but also by the solutions developed by the Group. Thus, many of the significant risks that accompanied the commencement of commercialization seem to be outdated today. The group still faces many challenges and its further development will require hard work and harmonious management of resources and markets, but the course of events in 2021 – which was a difficult year from the business point

of view – allows us to look to the future with big optimism. It is also worth noting that such a significant increase in key business indicators in the current year was achieved despite the continued effects of the COVID-19 pandemic which negatively affected the segments on which the Group's business is focused. These effects included mainly the following: problems with the availability of semiconductors used on a large scale in many areas of the economy, including the production of components used in wireless lighting control systems, and difficulties in the implementation of modernization projects caused by the introduction of a number of restrictions (mainly lockdown) and the absence of employees staying in in quarantine.

In the opinion of the Group's partners, many market analysts and leading industry organizations, the dominance of the Bluetooth Mesh standard in wireless lighting control will continue to strengthen over the coming years. As a leading provider of solutions based on this standard and a co-author of the Bluetooth Mesh specification, the Group is already preparing for the dynamic increase in demand for its products. The revolution in lighting control is gaining momentum each quarter, and the Group has all the tools needed to allow entities from the lighting industry not only to survive this revolution, but also to develop their businesses and expand sales markets.

Despite the increase in consolidated revenues in the first half of 2021 by over 100% compared to the corresponding period of last 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, the Board of the Parent Company plans to carry out another round of financing through the offering of up to 1.2 million common shares of the new issue and / or the issue of Convertible Notes in the amount from USD 1.5 million to USD 3 million.

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

Interim consolidated statement of profit or loss of the Group

Interim consolidated profit and loss account	01.01.2021 - 30.06.2021	01.01.2020 - 30.06.2020	01.04.2021 - 30.06.2021	01.04.2020 - 30.06.2020
Revenue	**266**	**129**	**124**	**78**
Cost of sales	**541**	**390**	**272**	**195**
Gross sales result	**-275**	**-261**	**-148**	**-117**
Selling and distribution expenses	159	305	38	128
General and administrative expenses	722	680	415	276
Net sales result	**-1 156**	**-1 246**	**-601**	**-521**
Recognition of impairment losses for costs of development work	-	-	-	-3
Other operating income	38	62	11	40
Other operating expenses	14	9	1	1
Losses due to unexpected credit losses	6	-	6	-
Operating result	**-1 138**	**-1 193**	**-597**	**-485**
Financial income, including:	-	32	506	170
Foreign exchange differences	-	-	506	164
Financial costs, including:	248	283	52	50
Interest	111	90	51	47
Result before tax	**-1 386**	**-1 444**	**-143**	**-365**
Income tax	198	-79	215	-54
Current part	1	10	-	6
Deferred part	197	-89	215	-60
Net profit/(loss) for the period	**-1 584**	**-1 365**	**-358**	**-311**
Profit/(loss) attributable to:				
Shareholders of the parent company	-1 584	-1 365	-358	-311
Non-controlling interest	-	-	-	-

As in 2020, the Group worked intensively on the development of new products, their promotion, creation of sales markets, as well as acquisition of buyers. In the first half of 2021, the Group intensively developed cooperation both with customers acquired in previous years, and with customers acquired in the current reporting period. These activities translated into a dynamic increase in revenues to the level of USD 266 thousand.

In the first half of 2021, the Group incurred general and administrative expenses in the amount of USD 722 thousand, and selling and distribution expenses of USD 159 thousand. The total value of selling and distribution expenses and general and administrative expenses incurred in the first half of 2021 was by USD 104 thousand lower compared to the first half of 2020. As a result of an increase in sales revenues and a decrease in costs, the net result on sales was by USD 90 thousand higher than in the corresponding period of the previous year.

In the first half of 2021, the Group did not report any financial revenues, which was caused by a surplus of negative exchange rate differences over positive ones. Compared to the first half of 2020, the value of financial costs decreased by USD 35 thousand.

The updated forecasts of the Silvair Group's results showed limitations in the possibility of realizing the deferred tax asset. It was therefore necessary to create an additional write-down of deferred tax assets. The deferred part of the income tax increased to the level of USD 197 thousand. This contributed to an increase in the value of the net loss for the current reporting period.

Financial results by the Group's operating segments

Segment type			1 January 2021 - 30 June 2021
	Smart lighting control	Other activity	Total
Revenues and expenses			
Sales to external customers	266	-	266
Inter-segment sales	-	-	-
Cost of sales	541	-	541
Income and expenses (operating and other operating)	-4	-859	-863
EBIT	**-279**	**-859**	**-1 138**
Net financial income (costs)	-	-248	-248
Share in profits of associates	-	-	-
Gross profit	**-279**	**-1 107**	**-1 386**
Income tax (current and deferred)	-	198	198
Net profit for the reporting period	**-279**	**-1 305**	**-1 584**
Assets			
Costs of development work (carrying amount of the assets)	9 797	1 120	10 917
Trade receivables	156	-	156
Unallocated assets	-	1 958	1 958
Total assets			**13 031**
Liabilities			
Financial liabilities	-	4 080	4 080
Liabilities from contracts with customers	155	-	155
Unallocated liabilities	-	1 355	1 355
Total liabilities			**5 590**
Other information	-	-	-
Depreciation and amortization	541	150	691

Segment type			1 January 2020 - 30 June 2020
	Smart lighting control	Other activity	Total
Revenues and expenses			
Sales to external customers	129	-	129
Inter-segment sales	-	-	-
Cost of sales	390	-	390
Income and expenses (operating and other operating)	-	-932	-932
EBIT	**-261**	**-932**	**-1 193**
Net financial income (costs)	-	-251	-251
Share in profits of associates	-	-	-
Gross profit	**-261**	**-1 183**	**-1 444**
Income tax (current and deferred)	-	-79	-79
Net profit for the reporting period			**-1 365**
Assets			
Costs of development work	8 396	1 585	9 981
Trade receivables	71	144	215
Unallocated assets	-	1 352	1 352
Total assets			**11 548**
Liabilities			
Financial liabilities	-	3 885	3 885
Liabilities from contracts with customers	64	-	64
Unallocated liabilities	-	1 444	1 444
Total liabilities			**5 393**
Other information	-	-	-
Depreciation and amortization	39	211	601

In the reporting period covered by this report, the Group's revenues included, among others, the sale of licenses for Silvair Lighting Firmware and the sale of licenses for the use of digital tools for commissioning and managing smart lighting networks (Silvair Commissioning). These revenues are recognized directly on the invoicing date and are disclosed in the Group's statements in the full amount.

An additional revenue component is the set of services relating to technical support as part of the sale of the above-mentioned products. The fees for these services are periodic and are usually charged in advance, annually. A proportional part of these revenues is allocated to revenues for the period, and the remaining part is presented as liabilities from contracts with customers.

Interim consolidated statement of financial position of the Group

	30 June 2021	31 December 2020	30 June 2020
Non-current assets	**11 419**	**11 512**	**10 818**
Costs of development work	10 917	10 772	9 981
Other intangible assets	65	70	71
Property, plant and equipment	17	16	20
Right-of-use assets	35	71	24
Financial assets	7	7	7
Deferred tax assets	378	576	715
Current assets	**1 612**	**3 027**	**730**
Inventory	5	5	11
Trade receivables	156	103	71
Other receivables	72	72	144
Prepayments and accruals	21	28	18
Cash and cash equivalents	1 358	2 819	486
Total assets	**13 031**	**14 539**	**11 548**

	30 June 2021	31 December 2020	30 June 2020
Equity	**7 441**	**8 862**	**6 155**
Equity attributable to the shareholders of the parent company	7 441	8 862	6 155
Share capital	1 350	1 343	1 153
Capital from revaluation of options	576	483	172
Other capital	24 861	24 819	21 611
Minority interest transactions	-365	-365	-365
Capital from foreign exchange differences from translation of foreign operations	919	898	656
Retained earnings	-18 316	-15 707	-15 707
Financial result of the current period	-1 584	-2 609	-1 365
Minority capital	-	-	-
Non-current liabilities	**2 562**	**2 597**	**420**
Deferred tax liabilities	18	20	22
Bond liabilities	2 192	2 188	-
Other non-current liabilities	-	-	-
Prepayments and accruals	352	389	398
Current liabilities	**3 028**	**3 080**	**4 973**
Trade liabilities	167	372	173
Liabilities from contracts with customers	155	131	64
Lease liabilities	35	71	32
Liabilities on bonds convertible to shares	1 888	1 797	3 735
Other current liabilities	264	227	481
Other short-term provisions	87	45	75
Prepayments and accruals	432	437	413
Equity and liabilities	**13 031**	**14 539**	**11 548**

In the reporting period, the Group continued its investments in development work, which amounted to USD 917 thousand. Expenditures on development work were financed from own funds. The balance sheet total increased in H1, 2021 by approximately 12.8% compared to H1, 2020. Increase in total assets as at the reporting date compared to the first half of 2020 is attributable primarily to an increase in capitalized costs of development work and an increase in cash balance.

The return on equity (ROE) amounted to -21%, compared to -22% in the comparable period, while the return on assets (ROA) maintained stable at -14%. The ROE and ROA levels were compared to the levels as at 30 June 2020.

The current liquidity ratio, calculated as the ratio of total current assets to total current liabilities, in the analyzed period amounted to 0.53, and improved from the previous level of 0.15, while the quick liquidity ratio (current assets were adjusted by the level of inventories and prepayments and accruals) amounted to 0.53 compared to 0.15 in the previous period. The financial liquidity ratios were compared to the results as at 30 June 2020.

Consolidated cash flows of the Group

The Group recorded an increase in cash by USD 872 thousand compared to the first half of the previous year. The funds obtained from the issue of shares were used mainly to cover expenditures on development works of USD 917 thousand and to fund operating activities which generated a negative cash flow of USD 500 thousand.

	1 January 2021 - 30 June 2021	1 January 2020 - 30 June 2020
Profit (loss) before tax	**-1 386**	**-1 444**
Adjustments for:	**886**	**1 071**
Depreciation and amortization	691	554
Foreign exchange gains (losses)	123	445
Interest and profit sharing (dividends)	111	78
Profit (loss) from investing activities	-	-6
Movement in provisions	42	-7
Movement in inventory	-	-2
Movement in receivables	-53	56
Movement in current liabilities, except for loans and borrowings	-132	208
Tax paid	-1	-10
Movement in prepayments and accruals	-34	-116
Other adjustments resulting from operating activity	139	-129

Net cash from operating activities	**-500**	**-373**
Proceeds	-	6
Disposal of intangible assets and property, plant and equipment	-	6
Expenditures	921	1 093
Purchase of intangible assets and property, plant and equipment	4	70
Expenditures incurred for development work	917	1 023
Net cash from investing activities	**-921**	**-1 088**
Proceeds	3	712
Net proceeds from issuing shares and additional capital contributions	3	10
Loans and borrowings drawn	-	-
Proceeds from the issue of debt securities	-	700
Interest	-	2
Expenditures	43	62
Repayment of loans and borrowings	-	26
Lease payments	29	36
Interest	14	-
Net cash from financing activities	**-40**	**650**
Net cash flows	**-1 461**	**-810**
Movement in cash	**-1 461**	**-810**
Movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**2 819**	**1 296**
Cash at the end of the period	**1 358**	**486**

Forecasts of the Silvair Group's results

The Silvair Group did not publish any forecasts of its results for 2021.

4.4 Management of financial resources

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

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") and set the key terms of issue of the Convertible Securities. A fixed annual interest rate of 5% was adopted for debt securities.

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

On 10 August 2020, the Board of Directors adopted resolutions on significant changes to the terms of the issue of the Convertible Securities ("Revised Convertible Securities") issued pursuant to the decision of the Company's Board of Directors of 8 August 2019. The content of the adopted resolution was made public by the Company in Current Report No. 17/2020. The terms of the Revised Convertible Securities provide that:

- The total par value of liabilities that the Company may incur under the Revised Convertible Securities is increased from USD 5.5 million to USD 6.0 million;
- The Maturity Date of the Revised Convertible Securities is changed so that the holders of the Revised Convertible Securities have the right to request redemption of the Revised Convertible Securities and payment of the principal amount with interest accrued and unpaid at any time after 31 December 2020, 2021, or 2022, respectively, depending on the terms of issue and the date of issue of individual Revised Convertible Securities;
- The conversion mechanism is modified in such a way that the Conversion Amount will be converted into common shares of the new issue of the Company only in the event of: (i) Change of Control; (ii) or on 15 December 2020, 2021, or 2022 (depending on the terms and date of issue of the relevant Revised Convertible Security), whereby the conversion will not result in a determination that the Company will issue within the preceding 12 months: (i) 20% of the number of the Company's shares admitted to trading on the regulated market operated by the Warsaw Stock Exchange on a date falling 12 months

before the conversion, nor (ii) shares in the amount specified in the Revised Convertible Securities, i.e. 1,073,757 shares in 2020, 1,168,928 shares in 2021 and 1,423,178 shares in 2022, depending on whichever number of shares is lower;

- Revised Convertible Securities will be converted into newly issued common stock of the Company at a fixed price of USD 1.65 ("Conversion Price"). In particular, as a result of the Conversion, the Company will issue its common shares to the holders of the Revised Convertible Securities in the number equal to the quotient of the Conversion Amount and the Conversion Price.

On 13 July 2020, as part of the change to the terms of the issue of the Convertible Securities adopted by the Board of Directors, the Company issued Revised Convertible Securities with a nominal value of USD 1.8 million. The content of the notification was made public by the Company in Current Report No. 20/2020. On 15 December 2020, a conversion of amounts due under the securities convertible into the shares of new issue (”Shares”) with a total nominal value of USD 1,662 thousand took place. The conversion of the Convertible Securities into Shares took place on the terms set out in the terms of the issue of the Convertible Securities specified in the resolutions of the Company’s Board of Directors of 8 August 2019 and 10 August 2020, which was announced by the Issuer in Current Report No. 31/2020. By 30 June 2021, the Company has issued Convertible Securities with a total par value of USD 5.512 million.

The Board of the Parent Company plans to carry out another round of financing through the offering of up to 1.2 million common shares of the new issue and / or the issue of Convertible Notes in the amount from USD 1.5 million to USD 3 million.

In 2013, a subsidiary received a loan from the Polish Agency for Enterprise Development (PARP) in order to finance the purchase of intangible assets and the costs of completed development works. The loan repayment date was 25 January 2021. In order to secure the loan granted by PARP in the amount of PLN 2.0 million, the balance of which was PLN 481 thousand (USD 126 thousand) as at 30 June 2021, PLN 485 thousand (USD 129 thousand) as at 31 December 2020, and PLN 470 thousand (USD 118 thousand) as at 30 June 2020, the company Sway Sp. z o.o. issued a blank promissory note.

Since 25 February 2020, the Group does not regularly repays the installments of the investment loan from the Polish Agency for Enterprise Development (PARP). The value of unpaid installments combined with interest as at the balance sheet date is PLN 481 thousand (USD 126 thousand). The Group has requested PARP to partially cancel the loan due to the effects of the COVID-19 pandemic. As at the date of publication, the Group has not received information about PARP's decision.

State aid

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

Transactions between entities with capital ties

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

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

Structure of the Group's assets:

	30 June 2021	31 December 2020	30 June 2020
Non-current assets	**87,63%**	**79,18%**	**93,68%**
Costs of development work	83,78%	74,09%	86,43%
Property, plant and equipment and other intangible assets	0,63%	0,59%	0,79%
Financial assets and right-of-use assets	0,32%	0,54%	0,27%
Deferred tax assets	2,90%	3,96%	6,19%
Current assets	**12,37%**	**20,82%**	**6,32%**
Inventory	0,04%	0,04%	0,10%
Current receivables	1,75%	1,20%	1,86%
Prepayments and accruals	0,16%	0,19%	0,15%
Cash and cash equivalents	10,42%	19,39%	4,21%
Total assets	**100,00%**	**100,00%**	**100,00%**

Structure of the Group's liabilities:

	30 June 2021	31 December 2020	30 June 2020
Equity	**57,10%**	**60,96%**	**53,30%**
Equity attributable to the shareholders of the parent company	57,10%	60,96%	53,30%
Minority interest	-	-	-
Non-current liabilities	**19,67%**	**17,86%**	**3,64%**
Current liabilities	**23,23%**	**21,18%**	**43,06%**
Equity and liabilities	**100,00%**	**100,00%**	**100,00%**

In the first half of 2021, there was an increase in the share of current assets in total assets compared to the first half of 2020. This was due to a significant increase in the share of cash in the balance sheet total. Due to the extension of the maturity dates of bonds, there was an increase in the share of non-current liabilities in the structure of liabilities.

5. Shares and shareholding structure

5.1 Shareholding structure of Silvair, Inc.

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

Share capital as at 30 June 2021

The capital of Silvair, Inc. is divided into 13,497,792 shares. The par value of one share is USD 0.1.

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	12 537 792	1 254	24 270	23 016
Preferred Stock	960 000	96	125	29
Total	**13 497 792**	**1 350**	**24 395**	**23 045**

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

- Szymon Słupik
- Rafał Han
- Adam Gembala

Share capital ownership structure	Number of shares	% of shares	Number of votes [1]	% of votes
Rafał Han	1 904 672	14,11	3 536 762	19,33
Szymon Słupik	1 891 472	14,01	3 536 632	19,33
Adam Gembala	1 018 760	7,55	2 145 520	11,73
Other shareholders holding less than 5% of shares	8 682 888	64,33	9 078 968	49,61
Total	**13 497 792**	**100,00**	**18 297 792**	**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 Company's shareholders do not hold any other voting rights than the rights specified above.

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

On 4 June, 11 June and 4 August 2021, Silvair, Inc. received – from Szymon Słupik, President of the Company's Board of Directors – notifications on transactions relating to shares which are referred to in Article 19 Section 1 of the MAR Regulation. The content of notifications was made public by the Company in Current Reports No. 10/2021, 11/2021 and 12/2021.

On 4 August 2021, Silvair, Inc. received – from Rafał Han, a member of the Board of Directors and the Company's CEO – a notification on transactions relating to shares which are referred to in Article 19 Section 1 of the MAR Regulation. The content of notification was made public by the Company in Current Report No. 12/2021.

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

On 4 January and 23 March 2021, Silvair, Inc. informed that it had received - from Ipopema Towarzystwo Funduszy Inwestycyjnych S.A. - notifications on the change of share in the total number of votes at the Company's General Meeting by investment funds managed by Ipopema Towarzystwo Funduszy Inwestycyjnych S.A. The content of the notifications was published by the Company in Current Reports No. 1/2021 and 8/2021.

5.2 Silvair, Inc. on the Warsaw Stock Exchange

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

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

Name	**Silvair, Inc.**
Short name	SILVAIR-REGS
Ticker	SVRS
ISIN	USU827061099
First listing	26.07.2018
Number of shares	13 497 792
Segment	Small company (capitalization in the range of EUR 5-50 million)
Sector groups	Information technology
Indices	InvestorMS, WIG-INFORMATYKA, WIG

The Company keeps an investor relations website in both Polish and English at:
https://silvair.com/pl/relacje-inwestorskie/o-firmie/

5.3 Other information on the shares and shareholders

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

First and last name	Number of shares as at 30 June 2021	% of shares	Number of votes	% of votes
Szymon Słupik	1 891 472	14,01	3 536 632	19,33
Rafał Han	1 904 672	14,11	3 536 672	19,33
Adam Gembala	1 018 760	7,55	2 145 520	11,73
Christopher Morawski	602 960	4,47	602 960	3,30

First and last name	Number of shares as at 30 September 2021	% of shares	Number of votes	% of votes
Szymon Słupik	1 893 540	13,98	3 538 700	19,29
Rafał Han	1 908 412	14,09	3 540 412	19,30
Adam Gembala	1 018 760	7,52	2 145 520	11,70
Christopher Morawski	602 960	4,45	602 960	3,29

First and last name	Number of shares as at 1 January 2021	Change	Number of shares as at 30 September 2021
Szymon Słupik	1 884 711	8 829	1 893 540
Rafał Han	1 904 672	3 740	1 908 412
Adam Gembala	1 018 760	-	1 018 760
Christopher Morawski	602 960	-	602 960

5.4 Dividend policy

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

5.5 Corporate governance

Corporate governance principles applicable to Silvair, Inc.

In the first half of 2021, Silvair, Inc. was subject to the corporate governance rules described in the "Code of Best Practices for WSE Listed Companies 2021". Information resulting from the corporate governance principles adopted by the Company are published on the following website: https://silvair.com/pl/relacje-inwestorskie/lad-korporacyjny/.

Corporate governance principles that were not applied by the Issuer in H1, 2021

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

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

- **Disclosure policy and investor communications**

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

This principle is not applied.

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

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

This principle is not applied.

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

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

This principle is not applied.

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

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

This principle is not applied.

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

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

This principle is not applied.

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

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

This principle is not applied.

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

- **Management board and supervisory board**

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

This principle is not applied.

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

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

This principle is not applied.

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

- **Internal systems and functions**

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

This principle is not applied.

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

- **General meeting and shareholder relations**

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

This principle is not applied.

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

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

This principle is not applied.

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

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

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

This principle is not applied.

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

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

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

This principle is not applied.

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

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

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

This principle is not applied.

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

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

This principle is not applied.

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

- **Remuneration**

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

This principle is not applied.

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

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

This principle is not applied.

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

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

This principle is not applied.

Company's explanation: See explanation to rule 6.4.

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

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

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

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

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

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

Silvair, Inc. shareholders holding significant stakes

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

Holders of securities with special control rights in the Company

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

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

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

All restrictions on the transfer of ownership title to the issuer's securities

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

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

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

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

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

- **Board of Directors**

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

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

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

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

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

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

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

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

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

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

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

- **Members of Management**

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

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

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

As at 30 June 2021, the following persons served as members of Management:

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

In the first half of 2021, no changes were made to the composition or functions entrusted to members of Management.

Description of how the members of the Management operate:

Chief Executive Officer (CEO)

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

President of the Board of Directors

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

Vice-President of the Board of Directors

In the event of absence or indisposition of the Chief Executive Officer and the President, the Vice- Presidents (if appointed) shall discharge all duties according to the hierarchy prescribed by the Board of Directors, while

if the Board of Directors fails to prescribe their hierarchy, the Vice-President designated by the Board of Directors shall do so. While acting in this capacity, the Vice-Presidents hold all the rights vested in the President and are subject to all the limitations imposed on the President. The Vice-Presidents also hold other rights and perform other duties which may be assigned to them by the Board of Directors, the Articles of Association, or the President of the Board of Directors.

Secretary

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

Chief Financial Officer

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

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

Treasurer

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

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

Exercising rights attached to shares in other companies

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

Rights and duties of members of Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Adam Gembala,
- Paweł Szymański,
- Christopher Morawski

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

The Committee is composed of at least two members of the Board of Directors. The Committee does not hold regular meetings and adopts its resolutions by a majority of votes. Meetings of the Committee are held as often as it is necessary to perform its tasks in an effective manner. In the first half of 2021, the Audit Committee carried out its duties during working consultations held on an ongoing basis. The Audit Committee also cooperated with the statutory auditor during the audit of individual financial statements. The following members of the Audit Committee satisfy the requirement of independence from the Company: Christopher Morawski and Paweł Szymański.

The Audit Committee may, in particular:

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

5.6 Additional information

Employees

As at 30 June 2021, the Silvair Group (the parent company Silvair, Inc. and subsidiaries consolidated using the full method) employed a total of 49 persons. At the end of the comparable period, i.e. on 30 June 2020, the Group's headcount was 52 persons.

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

	30.06.2021	30.06.2020
Employment contract	28 persons	29 persons
Mandate contract	1 person	2 persons
B2B*	19 persons	20 persons
Appointment	1 person	1 person
Total	**49 persons**	**52 persons**

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

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

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

Information on the employee share program control system

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

Regardless of the option pools specified in the KPI Agreement, on 31 March 2020 the Board of Directors of Silvair, Inc. adopted a resolution on increasing the number of shares under the Option Plan and granting options for 523,312 shares to designated employees. The resolution was a direct result of the Board's decision to reduce the Group's operating costs - in connection with the COVID-19 pandemic and its economic impact – by i.a. reducing employment and changing remuneration conditions for the Group's key employees and associates.

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

Entity authorized to audit financial statements

On 22 June 2020, the Company's Board of Directors adopted a resolution to again select Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Poznań (postal code: 61-131) at ul. abpa Antoniego Baraniaka 88 E, entered in the Register of Commercial Undertakings kept by the District Court for Poznań – Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, under file number KRS 407558, taxpayer identification no. NIP 782-25-45-999, audit firm no. 4055 ("Grant Thornton"), as the audit firm that will audit the Company's financial statements. Previously, Grant Thornton – pursuant to the agreement of 27 December 2018 concluded by the Company and Grant Thornton Polska Sp. z o.o. Sp.k. – performed the audit of the Company's annual statements (standalone and consolidated) for 2018, a review of the Company's consolidated financial statements for the first half of 2019, and an audit of the Company's annual statements (standalone and consolidated) for 2019.

Pursuant to the above-mentioned resolution of the Board of Directors and the agreement of 21 August 2020, Grant Thornton will perform the following: an audit of the Company's annual statements (standalone and consolidated) for 2020 and 2021, and a review of the Company's consolidated financial statements for the first half of 2020 and 2021.

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

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

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

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

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

Table: Auditor's fee

Scope of services	Reporting standards	Net fee for 2021 (in PLN)	Net fee for 2020 (in PLN)
Audit of the standalone annual financial statements	IFRS	12 000	12 000
Audit of the consolidated annual financial statements	IFRS	22 000	22 000
Review of the consolidated interim financial statements	IFRS	23 000	23 000
Total		**57 000**	**57 000**

Disputes

From 1 January to 30 June 2021, no proceedings relating to any liabilities or receivables of Silvair, Inc. or any of its subsidiaries were pending before any court, arbitration body or public administration authority, the value of which would be equivalent to at least 5% of the Company's equity.

6. Representation of the Board of Directors

The Board of Directors of the Parent Company represents that, according to its best knowledge, these interim condensed consolidated financial statements and the comparative data were prepared in line with the accounting principles in effect in Silvair, Inc., and are a true, accurate and clear reflection of the Group's financial position and its financial result. The report of the Board of Directors on the activities of the Silvair Group for the period from 1 January to 30 June 2021 contains a true presentation of developments, achievements and situation of the Group, including a description of key risks and threats.

Rafał Han	Szymon Słupik	Adam Gembala
Chief Executive Officer	Chief Technology Officer, 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