Report of the Board of Directors on the activities of the Silvair Group for the first half of the year ended 30 June 2023

Kraków, 28 September 2023

Table of contents

Operating activities of the Silvair Group

Key events and achievements in the first half of 2023

Transfer of agreements to OPTOTRONIC GmbH

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

Issue of Convertible Securities

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

Signing of an agreement with Luceco Plc.

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

Signing of an agreement with LSI Industries, Inc.

On 10 March 2023, Silvair, Inc. concluded an agreement with LSI Industries, Inc. based in U.S., for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware along with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware, and to provide related services.

Issue of Silvair, Inc. shares

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

After the conversion of the Convertible Securities and the issue of the Management Shares, the share capital of the Company amounts to USD 1,738,305.30 and consists of 17,383,053 shares of the Company with a nominal value of USD 0.10 each, including (i) 16,423,053 Common Shares of the Company, representing in

total 94.48% of the Company's share capital and entitling to a total of 16,423,053 votes at the Company's general meeting, representing in total 74.03% of the total number of votes in the Company, and (ii) 960,000 shares of the Company's Founders Preferred Stock (each such share entitles to six votes at general meeting of the Company), representing in total 5.52% of the share capital of the Company and entitling to a total of 5,760,000 votes at the general meeting of the Company, representing in total 25.97% of the total number of votes in the Company.

Signing of an agreement with Shenzhen Xiezhen Electronics Co. Ltd. (CuPower)

On 1 April 2023, Silvair Sp. z o.o. concluded an agreement with Shenzhen Xiezhen Electronics Co. Ltd. (CuPower) based in China for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware along with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware, and to provide related services. The companies also entered into agreement for the sale of Silvair Commissioning tools (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).

Admission of Silvair, Inc. shares to public trading

On 11 April 2023, the Issuer informed - in its Current Report No. 10/2023 - that the Management Board of the Warsaw Stock Exchange decided to: 1) introduce to trading on the parallel market, as of 13 April 2023, 1,607,908 ordinary bearer shares in the Company with a nominal value of USD 0.10 each ("Shares"), registered by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) under ISIN code USU827061099; and 2) list the Shares in the continuous trading system: (i) in the listing class referred to in § 71 item 5) of Section IV of Detailed Stock Exchange Trading Rules in the UTP system; (ii) under an abbreviated name of "SILVAIR-REGS" and a ticker of "SVRS". On 17 April 2023, with reference to KDPW decision no. 297/2023 of 7 April 2023, 1,607,908 common bearer shares with a nominal value of USD 0.10 each, marked with the ISIN code USU827061099, were registered.

Issue of Silvair, Inc. Convertible Securities

On 17 April and 12 May 2023, the Issuer informed in Current Reports No. 12/2023 and 13/2023 that Silvair, Inc. issued Convertible Securities with a total nominal value of USD 1.4 million within the liability limit and on the terms and conditions approved by a resolution of the Company's Board of Directors on 7 February 2023.

Signing of an agreement with Tiosl Technology Shenzhen Co., Ltd.

On 19 April 2023, Silvair Sp. z o.o. concluded an agreement with Tiosl Technology Shenzhen Co., Ltd. based in China for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware along with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware, and to provide related services.

LightFair International

On 21-25 May, the Silvair Group presented its product offer at the LightFair International 2023 trade fair that took place in New York. It is the most important industry event in the United States. The Group presented its solutions at its own booth, as well as at the booths of partners using Silvair solutions. In total,

as many as 10 of the Group's partners had booths at the fair - each of these booths contained information about the Silvair technology. During the event, the Group's representatives managed to establish a number of new business relationships that resulted in new cooperation opportunities. Effects in the form of new business contracts can be expected in the coming months. The fair was also a good opportunity to meet current partners and discuss further cooperation strengthening on the American lighting market. During the event, the high recognition of the Silvair brand on the American market was also noticeable. When participating in previous editions of the LightFair International event before the pandemic (during which the event was suspended), most of the conversations focused on presenting the Group's product offer to industry representatives who were not yet familiar with the Silvair brand. This year, most of the interlocutors knew perfectly well what the Group was doing and were interested in information about new products and further directions of development.

Signing of an agreement with Shenzhen HAISEN Technology Co.,Ltd.

On 5 June 2023, Silvair, Inc. concluded an agreement with Shenzhen HAISEN Technology Co.,Ltd. based in China for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware along with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware, and to provide related services

Patents

In the period from 1 January 2023 to 30 June 2023, the United States Patent and Trademark Office applied patent protection to three new solutions submitted by companies from the Silvair Group. In total, the number of innovative solutions covered by patent protection in the Silvair Group amounts to 25. The Group is also taking steps to extend patent protection for its solutions in selected European countries.

Material events after the balance sheet date

Due to the completion of research and development projects at SWAY Sp. z o. o. and guided by the need to optimize the operating costs of the Silvair Group, on 19 September 2023 the management boards of Silvair sp. z o.o. and SWAY sp. z o.o. made a decision to merge both companies. The merger will take place by taking over SWAY sp. z o.o. by Silvair sp. z o.o. under the procedure specified in Art. 492 § 1 point 1 of the Commercial Companies Code, through transferring all SWAY assets for shares in Silvair sp. z o.o., which Silvair sp. z o.o. will grant to SWAY shareholders. As a result of the merger, SWAY will cease to exist without its liquidation and will be deleted from the register of entrepreneurs of the National Court Register. The merger of the companies will be executed in a simplified manner.

Description of the Silvair Group and its development directions

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

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

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 (CEO)

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 Silicon 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

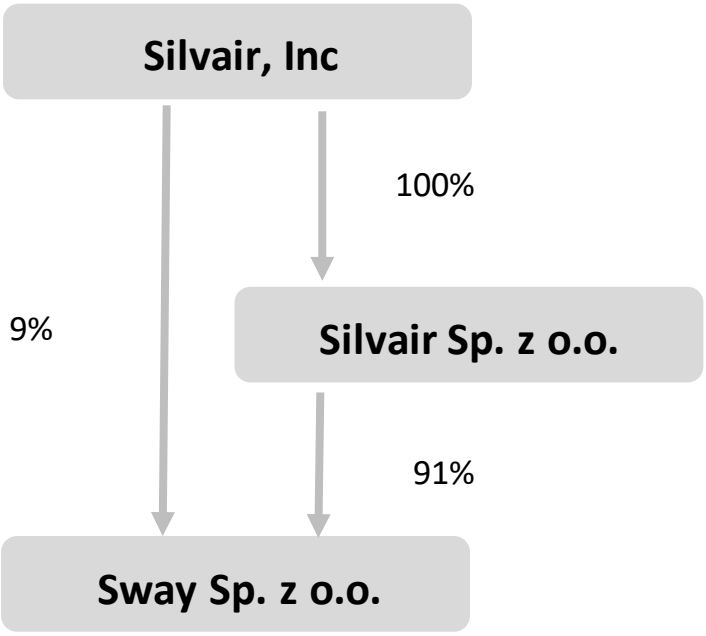
A graduate of McGill University in Montreal. An experienced manager with many years of experience in the field of international capital and financial transactions, strategic product development, market analysis and modeling of company financing. In the past, he dealt with technical specification and 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 2023

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

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 2023, 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 2023, 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.

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

The lighting control segment is the core of the Group's business. It is where the largest resources are allocated and where the largest part of income is generated. It is also the starting point for products and services offered within the other two segments, as these services are provided based on the wireless lighting control infrastructure.

The lighting control segment is characterized by a relatively complex and long supply chain. For this reason, achieving the Group's goal, which is becoming the leading provider of wireless solutions compliant with the Bluetooth Mesh standard, requires collaboration with various groups of stakeholders and providing them with dedicated products and services based on this standard. By addressing the needs of different stakeholder groups, the Group not only expands the market for its products but also contributes to the faster adoption of Bluetooth Mesh technology in the lighting industry.

The abovementioned supply chain in the lighting control segment 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. Readyto- use solutions and systems are usually distributed through a network of own vendors who cooperate closely with enterprises responsible for design specification. The buyers of lighting control systems primarily include property owners and property managers. They usually do not choose specific lighting solutions for their buildings, relying in this regard on the knowledge and experience of companies specializing in providing complete lighting control solutions. It should be noted that the activities of many entities go beyond the framework defined above, which often results in a significant shortening of the above-mention supply chain. For example, some companies can produce both luminaires and components for these luminaires. It also happens that suppliers of complete lighting control systems independently produce components and/or luminaires used in the solutions offered by them.

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

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

the lighting infrastructure operation, and the use of data generated by lighting infrastructure. A component with installed firmware allows e.g. autonomous control of light intensity and color temperature, as well as the implementation of advanced scenarios for intelligent lighting control, such as automatic occupancybased control (occupancy sensing), control based on natural light availability (daylight harvesting), or control based on precisely defined schedules. 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. They also include a number of diagnostic tools that allow efficient identification of problems that may arise when implementing a wireless lighting control system (e.g. lack of communication between devices). 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.

Within the Connected Lighting segment, the Group develops both ready-to-use tools that are delivered to the end customer as part of the Silvair Commissioning application interface, and API solutions (the so-called Application Programming Interface) that enable partners to build their own platforms, tools and applications that use data generated by smart lighting control systems. API solutions require a certain amount of work

and resources on the part of the Group's partner, but in return they offer full autonomy and freedom in creating a product that will be delivered to the end user. The Group expects that the use of API solutions and the creation of own portals and applications will be of interest to larger entities operating in the lighting market – the ones that have the appropriate know-how and resources in the field of research and development of digital products. Smaller entities that are not competent in the development of such tools can use ready-to-use diagnostic panels (dashboards) developed by the Group, which are available to users directly from the Silvair Commissioning application (e.g. electricity consumption monitoring panel, space occupancy monitoring panel, and a panel for remote control of the lighting system).

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. Smart building management also covers the analysis and use of data from various elements of the key building infrastructure - e.g. from the lighting, ventilation, heating, fire protection, access control systems, etc. Aggregating and analyzing a wide stream of data on key building infrastructure makes it possible to increase the efficiency of individual installations and identify areas where unnecessary costs are incurred.

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 in a subscription model, primarily to entities operating in the building automation market, integrators of control and automation systems, as well as owners and managers of commercial buildings.

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 Condensed Consolidated Financial Statements of the Silvair Group for the first half of 2023. All transactions with related entities were executed on an arm's length basis.

Business development

Business activity

The first half of 2023 was a period of further stable business development of the Silvair Group. As the number of components produced by the Group's partners increases and the number of devices activated with Silvair Commissioning tools continues to increase, the number of lighting projects employing Silvair technology also keeps growing. The consequence is a further increase in the Group's revenues and an increasingly closer prospect of achieving full business profitability (break-even point). In the first half of 2023, the Group also signed new promising partnership agreements, while continuing to work on the development of its products in close cooperation with key customers. An important event from the point of view of the Group's business development was also participation in LightFair International in New York, the most important lighting industry fair in the United States.

The first half of 2023 brought another significant increase in the number of lighting components based on Silvair wireless technology, which were manufactured by the Group's partners. The number of various types of devices based on the Silvair technology, which were manufactured by partners during this period, amounted to over 175 thousand, almost as many as the total number of components produced throughout the entire 2022 (over 193 thousand). In June, a significant milestone was achieved in this regard when the total number of components produced by the Group's partners since the beginning of the commercialization of the Silvair technology exceeded half a million devices.

The number of devices installed using Silvair Commissioning tools in the first half of 2023 amounted to almost 59 thousand, compared to 86 thousand installations recorded throughout the entire 2022. In the first days after the end of the period covered by this report, the total number of devices installed in commercial buildings with Silvair Commissioning tools exceeded the level of 200,000 units. The level of 100,000 installed devices was reached in September 2022, so it took only 10 months to double this result.

Another positive trend is the increase in the number of components used on average in lighting projects. Large-scale projects spanning multiple floors of commercial buildings use many more devices running Silvair firmware - lighting fixtures, motion/light sensors, drivers, controllers - than smaller projects. Taking into account that Bluetooth Mesh technology is the only wireless standard enabling reliable operation of such large-scale wireless lighting control networks, the Group expects that the share of large projects in the total number of implementations will increase - which over time will translate into increasingly larger demand for devices based on Silvair solutions.

In the context of prospects for further development, it is worth paying attention to the changing trends in the specification and selection of wireless lighting control technologies that can be observed on the American market. More and more often, people responsible for selecting lighting control solutions start defining their requirements with a specific control system that is best suited to the requirements of a specific project. Only in the next step is the selection of specific lighting fixtures that are able to work with the desired system. This is a very important change, because so far this process almost always started with the selection of specific luminaires and matching them with an appropriate control system. The Group sees this trend as beneficial for its business, as it allows it to compete more easily with the largest lighting brands that have managed to achieve a high level of market penetration over the decades of their activity and whose luminaires have a very strong position in the largest distribution channels. A situation in which the process of selecting products to be used in a specific project begins with the selection of a lighting control system makes it easier to take advantage of all the technological advantages of the Bluetooth Mesh standard over

other wireless communication technologies and the resulting advantages of the Silvair solution over other wireless control systems. The further strengthening of this trend is an important opportunity for the Group to increase demand for devices and systems directly based on Silvair technology.

Competition in the wireless lighting control segment remains fierce, and the range of offered solutions is wide - just like the range of wireless communication technologies used in wireless control systems. However, there are clear voices confirming what the Group has consistently communicated from the very beginning of the commercialization of its solutions - that the Bluetooth Mesh standard is the best wireless technology for commercial lighting applications. In the field of solutions compliant with the Bluetooth Mesh standard, the Silvair Group continues to be the undisputed leader - both in the segment of suppliers of firmware for installation in lighting components and in the segment of tools for configuring and commissioning wireless lighting control systems. It can therefore be assumed that further strengthening of the position of the Bluetooth Mesh standard on the market will translate into further dynamic development of the Group's business.

Following the trend described above, the Group continues to actively work on acquiring new business partners in order to further increase the availability of Silvair solutions in the main distribution channels, both on the European and American lighting markets. There are also ongoing activities related to the promotion of the Bluetooth Mesh standard and increasing the lighting industry's awareness of the technological advantages of this standard over other solutions used in wireless lighting control systems.

Development of products

The development of the Group's products in the first half of 2023 focused on tasks related to ensuring full scalability of Silvair solutions in the face of a constantly growing number of business partners and users of tools developed by the Group. The growing number of users translates into an increasing load on the infrastructure supporting the basic functionalities of the Silvair Platform. This applies to both the Silvair Commissioning tools for configuring and managing wireless lighting control systems, as well as, among others, bandwidth of servers handling user data stored in the cloud. Due to the constantly growing volumes of handled data and the constantly increasing number of user interactions with the Silvair Platform, a continuous and thorough analysis of the risks associated with a possible drastic increase in users in the near future is necessary.

With this in mind, in the first half of 2023, the Silvair Group allocated a significant part of its development resources to works related to enabling further uninterrupted scalability of key product infrastructure. A number of technical works were carried out to eliminate the identified risks and secure the smooth operation of the entire infrastructure. At the same time, problems and errors that occasionally appeared on the platform at times of peak use of Silvair Commissioning tools by users were eliminated.

Regardless of the works on infrastructure scalability, the Group made subsequent versions of Silvair Commissioning tools available to its partners, introducing a number of improvements to the offered functionalities. In response to the partners' needs, a significant update was introduced to one of the key standalone functionalities, which is the automatic emergency lighting testing. The functionality of remote control of the lighting system via the Internet has been significantly developed, and tools for network diagnostics and testing the quality of connections between individual devices have also been improved. An important milestone in this regard was granting the access to the beta version of the Silvair Commissioning app for mobile devices running Android to selected partners. Works on this application have been carried out for over two years and the beta version was made available to collect the first feedback from partners.

The commercial and fully functional version of the Android application is planned to be available in the second half of 2023. So far, the mobile part of Silvair Commissioning tools was available only for iOS devices (Apple devices), which constituted a significant barrier to entry into the system - especially on the European and Asian markets. The Group expects that the wide availability of Silvair Commissioning tools on Android devices will increase the attractiveness of Silvair products in the above-mentioned markets, contributing to the dynamic development of the business.

Marketing activity

In the first half of 2023, the Group consistently implemented its marketing strategy, including activities in the field of both inbound and outbound marketing. The company's representatives took part in the two most important events in the lighting industry. In March 2023, they attended the LEDucation conference and trade fair taking place in New York. The second important lighting event was the LightFair International trade fair that took place in May 2023 in New York. The Group's booth was four times larger than in the previous year, and the Silvair brand also appeared at multiple booths of the Company's partners. Also this year, the booth was located in a special zone intended for members of the IES organization to which the Group belongs. The team held over 250 meetings with new and existing clients. As part of the event, the company's CTO, Szymon Słupik, was invited to an interview for the American podcast series "The Lighting Controls".

In the reporting period, the Group conducted marketing and educational activities to promote its partners. It started publishing videos presenting the profiles of companies it cooperates with in order to increase interest in their products and encourage other similar companies to get into business relationship with the Group.

In March 2023, in connection with the promotion of services based on data from lighting networks, a webinar was organized on smart buildings and integration possibilities through the use of the API offered by the Group. The webinar was organized together with a partner, Sylvania Lighting, which allowed to increase the reach of promotional activities and attract a higher number of participants.

In the first half of the year, the Group promoted two new partnerships, with Jarvis Lighting and Luceco Lighting. Both companies have launched branded lighting control solutions based on Silvair technology. These materials were distributed in the Group’s own marketing channels, Partners' channels, and in leading industry media.

Among the important industry press information, the key news was the granting of DLC NLC 5.0 certification for outdoor projects to two Silvair partners - McWong and LSI. DLC is a non-profit organization that focuses on energy efficiency and lighting quality in the built environment.
The group also released a white paper on energy savings via lighting control. The document is available for download from the Company's dedicated landing page. Its aim is to increase awareness and educate on the issue of energy efficiency.

A very important element of building awareness of the Silvair solution in the lighting industry was the preparation of an online training program. Its pilot version from 2022 has been enriched with new materials and content. New theoretical content describing the underlying technology, practical content showing new functionalities of commissioning tools, interactive tasks and tests for participants have been added to the program. Each course ends with a certificate.

Characteristics of the market on which the Group operates

Smart lighting market drivers

Increase in energy prices

Since the second half of 2021, a sharp increase in the prices of energy carriers can be observed. This phenomenon is global in nature, but has recently hit the European Union countries particularly hard. Eurostat data show that on average in the EU countries, energy carriers for households in June this year were more expensive by as much as 41.8% than a year earlier. The unprecedented price increases are the result of the accumulation of many different factors, but only some of them could have been predicted until recently. The gradual increase in prices was expected as a consequence of the ambitious climate policy pursued, in particular, by the European Union. But the dynamics of this growth accelerated as a result of the economic recovery after the Covid-19 pandemic and the easing of transport restrictions. The year 2022 brought even greater increases, which was largely due to Russia's military aggression against Ukraine and its economic and political consequences. The crisis was aggravated by extreme climatic conditions, including a heatwave in Europe, that have had a negative impact on the production capacity of nuclear and hydro power plants, while increasing the demand for energy used for cooling purposes. At the same time, we are also dealing with a drastic increase in gas prices on global markets and the increase in its consumption resulting from the economic recovery in Asia. This all shows that the scale of problems has become so large that we can already talk about a global energy crisis which, according to many experts, may last for many years to come. The year 2023 brought some price declines compared to the peak values recorded last year, although attention should be paid to significant price differences between individual regions of the world. At the same time, prices remain at a very high level compared to the values recorded in 2018-2020. The International Energy Agency (IEA) estimates that the growth in global demand for electricity will slow down slightly throughout 2023, but already in 2024 we will see another increase in demand related to the expected improvement in global economic conditions.

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

Dynamic development of the LED lighting market

Over the past decade, the LED technology has dominated the lighting market. Widely used in new construction, it is quickly replacing obsolete solutions also in existing buildings. According to the analysis of Goldman Sachs, in 2025 the share of LEDs in the global lighting market may be as high as 95%, compared to just 1% share recorded in 2010. Such a quick pace of this global technological shift results from the fact that it is undoubtedly the most effective of the currently available lighting technologies, which at the same time offers incomparably more possibilities with regard to lighting control. What guarantees a further increase in the share of the LED technology in the global market is not only its high utility value compared to other technologies (e.g. higher quality of emitted light, longer lifetime, lower electricity consumption), but also the fact that it is favored by legislative bodies - which is a direct consequence of higher energy efficiency of LED products. LEDs emit negligible amounts of heat, while e.g. traditional incandescent lamps release up to 90%

of their energy in this form. For compact fluorescent lamps, this ratio amounts to around 80%. As a result, we can observe a long-lasting trend of favoring LED technologies by governments of individual countries, as well as political and economic unions. For example, already in September 2009 the European Union introduced a ban on the sale of traditional, energy-intensive tungsten filament bulbs with a power rating of 100 W or more. Regulations from subsequent years eliminated other conventional light bulbs from the market, while tightening the energy standards for compact fluorescent lamps. In the second half of the last decade, the European Commission tightened regulations also on halogen lamps, eventually banning their production and sale in September 2018. The next stage of the lighting revolution is the ban on the production of fluorescent sources, which will be in force in the European Union as soon as in 2023. September will be the last month in which mercury-containing lamps (including linear and circular fluorescent lamps, and compact fluorescent lamps) will be able to be introduced to the market. These types of lamps are still popular, especially in industrial applications. In the face of upcoming legal changes, the only economically rational alternative to fluorescent lamps is LED lighting.

EU regulations in this regard are among the most restrictive, but similar resolutions aimed at increasing the energy efficiency of lighting products have been adopted in recent years almost worldwide, also in countries with a lower degree of economic development. In the face of the aforementioned global energy crisis, it can be expected that the LEDification process will gain even greater pace, and that outdated and energy-intensive lighting technologies will be even more effectively replaced by LED lamps.

Progressing climate change

In the public space, there is still an ongoing discussion about the extent to which the progressing climate changes and anthropogenic warming of the Earth's climate system is a consequence of human activity, and the extent to which it is the result of the planet’s natural cycles. The scientific world seems to have no doubts, however, that human activity is unequivocally related to the rapid global warming of the climate. It is also estimated that if the process continues at the current pace, then in the next dozen to several dozen years the temperature will increase to a level beyond which we will not be able to avoid the catastrophic effects of global warming. To prevent this, it is necessary to drastically reduce the emission of CO2 and other substances emitted into the atmosphere (including methane, nitrous oxide and fluorinated greenhouse gases). This requires far-reaching economic and social changes and a profound transformation in many sectors of the economy. Today, counteracting climate change is becoming a top priority in highly developed countries, which results in numerous legal regulations and long-term transformation programs aimed at reducing the harmful impact of human activity on the Earth's climate system. It should be expected that with the passage of time and the growing need to reduce emissions, replacing obsolete and highly energy-intensive technologies with modern energy-saving solutions will become an absolute necessity in almost all areas of our lives. Considering the prevalence of lighting infrastructure, it is hard to imagine that this segment could not be subject to an equally deep transformation aimed at radically increasing energy efficiency and eliminating excessive energy consumption.

Increasing the energy efficiency of buildings

The United Nations Environment Program, which was established to carry out environmental protection activities and constantly monitor environmental condition, estimates that buildings consume around 40% of global energy production. Rapid demographic growth in developing countries, dynamic urbanization processes, and an increasing amount of time spent by humans inside buildings - these are just some of the factors contributing to the continuous expansion of built-up infrastructure around the world, and to the dynamic increase in energy consumption over recent decades. The growing energy needs of the modern

world, increasingly limited resources of fossil fuels, as well as the negative environmental impact of using these fuels for energy production have become the driving force behind the global pursuit for improvement in the energy efficiency of built-up infrastructure. This was reflected in the emergence of a completely new category of services provided by energy service companies (ESCOs). In accordance with Directive 2006/32/EC of 5 April 2006 on energy end-use efficiency and energy services, these are companies providing energy services or other energy efficiency improvement measures in industrial, commercial and public spaces.

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

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

It should also be mentioned that, according to the estimates of the European Commission, commercial buildings are on average about 40% more energy-intensive than residential buildings (on average 250 kWh/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.

Dynamic development of the horticulture lighting market

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

With global food demand continuing to rise, water supplies decreasing, and climate change negatively impacting traditional farming methods, there are a growing number of legislative initiatives in the global marketplace that promote the adoption of controlled environment farming practices. Lighting plays a key role in the process of growing crops in a controlled environment. By properly adjusting light intensity and color to the needs of particular crop species throughout the production cycle, it is possible to achieve yields with the desired characteristics and quality that are extremely difficult to achieve with traditional methods. Precise lighting control technology is essential to achieve the results mentioned above. The same features of Bluetooth Mesh technology, which generate a number of measurable benefits in lighting control systems installed in commercial spaces, allow for a significant reduction in the cost of lighting installations used to grow crops in a controlled environment. No additional wiring, flexibility in terms of configuration and reconfiguration, ease of installation and operation - these are just some of the features that make Bluetooth Mesh-based wireless lighting control technology a perfect match for the demanding requirements of crop lighting in vertical farms and greenhouses. Considering the fact that the horticulture market is a relatively young segment, where different solutions are still being tested to achieve optimal results, it can be assumed that it is very open to the use of the latest wireless lighting control technologies (as opposed to commercial spaces, where wired solutions often still win over wireless ones due to the habits of designers and installers who have been using wired systems for decades). Addressing the needs of horticulture industry stakeholders can lead to rapid adoption of wireless solutions that in a controlled environment have a number of advantages over traditional lighting control systems.

Legal regulations

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

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

- ASHRAE 90.1 - an energy standard published by the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) in cooperation with the Illuminating Engineering Society (IES). It includes requirements for different types of buildings, with the exception of low-rise residential architecture. It is designed as a model energy code which can be adopted by individual jurisdictions in full or only to some extent. The standard is updated every three years. In 2018, the US Department of

Energy recognized ASHRAE 90.1-2016 as a national reference standard, while obliging all states to introduce energy codes not less stringent than ASHRAE 90.1-2016 by February 2020.

- IECC - International Energy Conservation Code - an energy standard published for the first time by the International Code Council in 2000. It is a model energy code for commercial and residential buildings. Similarly to ASHRAE 90.1, it is updated every three years. IECC mentions ASHRAE 90.1 as an alternative energy efficiency standard, allowing building designers to decide which of these two standards they want to adhere to.

In addition, some of the states have decided to introduce their own energy codes. One example is California which was the first state to introduce minimum energy efficiency standards as early as in 1974. This is also where America's first energy regulation commission - California Energy Commission - was established. Currently, every three years the body publishes the Title 24 standard which is one of the most demanding energy codes as far as lighting control is concerned. It should be mentioned that as a result of these longterm efforts to improve energy efficiency, California today has one of the lowest energy consumption rates per capita. Over the years, there has been a clear trend of tightening the requirements contained in energy codes, especially the ones relating to commercial facilities. Not only the number of requirements keeps increasing, but also the number of building categories covered by these requirements. In addition, many of the requirements which in previous years related only to new construction, now also apply to modernized buildings.

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

Support and grant systems

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

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

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

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

To this day, the commercial real estate sector has been struggling with the consequences of the COVID-19 pandemic. Most of these consequences should be assessed as potentially negative, but the circumstances surrounding the global pandemic required decisions and actions that may prove beneficial for the widespread adoption of smart lighting technologies. In this context, COVID-19 may become a catalyst for changes in commercial spaces, accelerating trends that previously might have lacked proper dynamics.

One example of such a trend is a radical change in the approach to remote work. This change was in the first place forced by the introduction of lockdown in many countries during the first wave of COVID-19. As the restrictions were eased over time, some employees returned to their workplaces, but many office spaces still remain empty to a large extent. As research shows, especially among large private companies, there are many that still operate in the remote or hybrid work model. 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.

Smart lighting market barriers

Supply chain disruptions and the global semiconductor shortage

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

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

Lack of standardization and interoperability

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

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

Financial barriers

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

Lack of knowledge and trust

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

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:

- Six years after the adoption, no significant 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 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,

  - 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.
- Currently, the Bluetooth SIG is working on the Bluetooth Mesh specification in version 1.1, and Silvair also actively participates in these works. In December 2022, draft versions of the documents were made public, and the new version of the standard is expected to be released in the second half of 2023. Version 1.1 will be much more extensive than the original specification of the Bluetooth Mesh standard, and it will include a number of improvements and additions in response to technological and market needs that emerged during the first few years of the standard's presence on the market. These include significant improvements in areas such as updating firmware inside devices, remote activation and configuration of Bluetoth Mesh networks, more efficient subnet management, multiple improvements to data security and privacy, and many others.

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.

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. Systems included in the QPL list are entitled to a simplified path to obtaining a grant for their purchase and implementation. Until now, only proprietary systems from individual suppliers could be found on the QPL list. Over the last years, Silvair has been working closely with DLC to enable NLC qualification for components from different manufacturers that make up a complete system. First, we obtained DLC's approval for using the Silvair brand as a brand for a system that any component manufacturer can refer to as long as a given component is based on the Silvair firmware. This agreement meant the emergence of a fast track for obtaining DLC QPL qualification for our partners. The first applications for DLC qualification have already been processed, as a result of which Silvair's partners - McWong, Linmore LED and Aleo Lighting - have been included in the official QPL list.

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

OneDM

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

Risks related to our business

The Silvair Group is exposed to a number of risks that may exert an unfavorable effect on its operations, financial and operating standing, as well as its brands and reputation. On a regular basis, the Board of Directors reviews the market environment and risk factors to which the Silvair Group is exposed. New projects and contemplated major transactions are subject to thorough scrutiny. If any regulatory amendments are enacted, the Group's companies adjust their business accordingly. The following are the primary risks that, if materialized, may exert a significant impact on the Group's business. Besides the factors mentioned in this section, the Group is also exposed to financial risks described in Note 33 to the Silvair Group's Interim condensed consolidated financial statements for the first half of 2023.

Military operations in Ukraine

The Russian military invasion in Ukraine, which began on 24 February 2022 and has been continued uninterrupted until the publication of this report, has shattered the postwar order on the global political and economic scene. The regular warfare conducted in the continental Europe has unleashed a wave of powerful global consequences, which in the medium to long term could potentially affect every sector of the economy, not excluding the young wireless lighting control segment. There are so many associated factors which may adversely affect the further development of the smart lighting industry and the Group's activities as a result of the crisis situation across Poland's eastern border that it is impossible to list them all here. Many of them probably cannot be predicted today, just as the further development of events in Ukraine remains unpredictable. The worst-case scenario, which at present seems unlikely but which cannot be completely ruled out, is a further escalation of military action and a potential spillover of the conflict beyond the borders of the Ukrainian state. Taking into account the geographical location of Poland, this could be a direct threat to the Group's further operations in the form in which it has developed its business so far. This would be an unprecedented situation in the modern history of Poland, and as of the date of publication of this report, there are no grounds for fears that this worst-case scenario could materialize. However, there are also no indications that the war in Ukraine could end quickly, and the longer it lasts, the more painful the consequences will be for both the Polish and global economy. In particular, it is worth mentioning the unprecedented sanctions that have been imposed on Russia as a consequence of the armed attack on Ukraine. So far, Russia has been an important exporter of numerous raw materials, including energy resources, so the progressive isolation of the Russian economy will not be without impact on the entire global economy, especially in view of the declarations of subsequent countries to completely renounce Russian gas and oil in the near future. On the other hand, Ukraine - called the granary of Europe - has traditionally been one of the largest producers and exporters of grains. Limited supplies from a war-torn country is already driving the price of many basic food products up. The potential consequences of this could go very far - including the escalation of the hunger problem in less developed countries and social unrest in many parts of the world. All of this means that it could take many years before the global economy returns to the relative stability it was in before the outbreak of war in Ukraine. This turmoil will not be without impact on the development potential of the smart lighting control segment, and thus on the Group's business operations. In times of crisis, when meeting basic needs becomes a challenge, resources are directed to where they are most needed. There is less space for innovation, research and sustainable development. Issues such as environmental protection and energy efficiency of buildings are relegated to the background in the face of threats and challenges that may arise as a consequence of the war in Ukraine. This situation could slow down the adoption of wireless solutions in the lighting control segment. Even if major turmoil in the global economy can be avoided, entities involved in the development of smart lighting technology might face problems relating to the further disruption of supply chains that were already severely impacted by the global COVID-19 pandemic.

Risk associated with the COVID-19 coronavirus pandemic

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

The restrictions introduced in years 2020 - 2023 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. Another significant effect of the pandemic was the occurrence of huge disruptions in components' supply chains across various sectors of the economy. Prolonged problems in the semiconductor market have directly hit the smart lighting segment, causing a shortage of components used in wireless lighting control systems. Despite the lifting of the epidemiological threat in many countries, there is a fear that a recurrence 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 8 February 2023, Silvair sp. z o.o. executed a third party liability insurance contract with Colonnade Insurance S.A. The insurance covers third party liability in respect of personal and property damage caused in connection with the possession and use of assets as well as the business run by Silvair sp. z o.o., as specified in the insurance contract, including damage caused by a product or service (including that caused by a rendered and delivered service) and presence of third parties on the premises in connection with the performance of insured professional activities, and in respect of damage resulting from shortcomings in the performance of professional activities in connection with the provision of services specified in the insurance contract. However, Silvair, Inc. is considering the selection of an appropriate variant of third party liability insurance. This means that Silvair, Inc. does not have insurance protection that would cover any damages incurred or claims made against the company.

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.

Financial standing of the Silvair Group and Silvair, Inc.

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 2023 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 2022 which were made public on 20 April 2023.

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

In the first half of 2023, the global geopolitical and economic situation continued to remain highly unstable. This, however, did not prevent the Group from consistently pursuing its major business goals and further improving sales results. There was an increase in all key indicators reflecting the level of adoption of the offered solutions on the lighting market. The number of devices installed by the Group's partners using Silvair Commissioning tools in the first half of 2023 amounted to over 58 thousand, compared to 88 thousand installations recorded throughout the entire 2022. The number of various types of devices based on the Silvair technology, which were manufactured by partners during this period, amounted to over 175 thousand, almost as many as the total number of components produced throughout the entire 2022 (over 194 thousand).

In June 2023, a significant milestone was achieved when the total number of components produced by the Group's partners since the beginning of the commercialization of the Silvair technology exceeded half a million devices. At the same time, in the first days after the end of the period covered by this report, the total number of devices installed in commercial buildings with Silvair Commissioning tools since the beginning of commercialization exceeded the level of 200,000. The level of 100,000 installed devices was reached in September 2022, so it took the Group only 10 months to double this result.

As the number of components produced by the Group's partners increases and the number of devices activated with Silvair Commissioning tools continues to increase, the number of lighting projects employing Silvair technology also keeps growing. The consequence is a further increase in the Group's revenues and an increasingly closer prospect of achieving full business profitability (break-even point). If current development trends are maintained, reaching this point seems to be a matter of months. Achieving profitability will be the culmination of many years of work on the Bluetooth Mesh standard and the solutions offered today on the market under the Silvair brand. At the same time, it will open a new chapter in the company's development. Eliminating the risks associated with the lack of full profitability will significantly improve the stability of the entire business and increase the Group's credibility in the eyes of both new investors and those who have already trusted the vision of the future drawn by the Group - a future in which traditional cable lighting control systems will be replaced by control systems based on wireless communication.

The Group believes that further business development will be driven by global trends that fit well into the adopted business model. Counteracting rapid climate change, high prices of energy carriers, phasing out outdated lighting technologies from the markets through restrictive regulations, and an increasingly clear desire to improve the energy efficiency of built infrastructure - these are just some of the global trends that significantly increase the attractiveness of Silvair solutions on the lighting market.

Competition in the wireless lighting control segment remains fierce, and the range of offered solutions is wide - just like the range of used technologies. However, there are clear voices confirming what the Group has consistently communicated from the very beginning of the commercialization of its solutions - that the Bluetooth Mesh standard is the best wireless technology for commercial lighting applications. In the field of solutions compliant with the Bluetooth Mesh standard, the Silvair Group continues to be the undisputed leader - both in the segment of suppliers of firmware for installation in lighting components and in the segment of tools for configuring and commissioning wireless lighting control systems. It can therefore be assumed that further strengthening of the position of the Bluetooth Mesh standard on the market will translate into further dynamic development of the Group's business.

At the same time, the Bluetooth Mesh standard continues to develop. Currently, the Bluetooth SIG is working on the Bluetooth Mesh specification version 1.1, and Silvair also actively participates in these works. In December 2022, draft versions of the documents were made public, and the adoption of the new version of the standard is expected in the second half of 2023. Version 1.1 will be much more extensive than the original specification of the Bluetooth Mesh standard and will include a number of improvements and additions that respond to the technological and market needs that emerged during the first few years of the standard's existence on the market.

The group is constantly working on developing its products and adapting them to the expectations of the lighting industry. An important milestone in this regard was granting the access to the beta version of the Silvair Commissioning app for mobile devices running Android to selected partners in the first half of 2023. Works on this application have been carried out for over two years. So far, the mobile part of Silvair Commissioning tools was available only for iOS devices (Apple devices), which constituted a significant barrier to entry into the system - especially on the European and Asian markets. The Group expects that the wide availability of Silvair Commissioning tools on Android devices - planned for the second half of 2023 - will increase the attractiveness of Silvair products in the above-mentioned markets, constituting another factor contributing to the dynamic development of the business.

Despite the increase in consolidated revenues in the first half of 2023, 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. On 7 February 2023, the Board of Directors of Silvair, Inc. adopted a resolution on approval of incurring liabilities up to the total nominal value of USD 5.0 million in the form of an issue of debt securities convertible into new issue ordinary shares of the Company. As part of this issue, until the date of publication of this report, the Company has issued Convertible Securities for the total amount of USD 1.15 million.

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

Interim consolidated statement of profit or loss of the Group

Interim consolidated profit and loss account (amounts in USD thousand)	01.01.2023 – 30.06.2023	01.01.2022 – 30.06.2022	01.04.2023 – 30.06.2023*	01.04.2022 – 30.06.2022*
Revenue	**1 070**	**515**	**577**	**255**
Cost of sales	**635**	**551**	**324**	**268**
Gross sales result	**435**	**-36**	**253**	**-13**
Selling and distribution expenses	317	274	181	142
General and administrative expenses	527	714	258	340
Other operating income	35	41	-2	16
Other operating expenses	69	9	65	8
Losses due to expected credit losses	-	15	-40	15
Operating result	**-443**	**-1 007**	**-213**	**-502**
Financial income	-	-	-	-
Financial costs	115	883	50	461
Result before tax	**-558**	**-1 890**	**-263**	**-963**
Income tax	-48	-35	-34	-12
Net profit/(loss) for the period	**-510**	**-1 855**	**-229**	**-951**
Profit/(loss) attributable to:				
shareholders of the parent company	-510	-1 855	-229	-951
non-controlling interest	-	-	-	-

Similarly to 2022, in the first half of 2023 the Group worked intensively on the development of new products, their promotion, creating sales markets, as well as acquiring customers. These activities translated into a dynamic increase in revenues by more than 100%, from the level of USD 515 thousand in the first half of 2022 to the level of USD 1,070 thousand in the first half of 2023. Cost of sales in the first half of 2023 increased by USD 84 thousand compared to the first half of 2022, from USD 551 thousand to the level of USD 635 thousand.

In the first half of 2023, the Company incurred general and administrative expenses in the amount of USD 527 thousand, and selling and distribution expenses in the amount of USD 317 thousand. General and administrative expenses decreased by USD 187 thousand, while selling and distribution expenses increased by USD 43 thousand compared to the first half of 2022. The total value of combined general and administrative expenses and selling and distribution expenses incurred in the first half of 2023 was lower than in the first half of 2022.

In the first half of 2023, the Silvair Group did not generate financial income. The Company incurred financial costs of USD 115 thousand, a decrease of USD 768 thousand compared to the corresponding period of 2022. This is mainly due to the decline in foreign currency exchange rates and the resulting negative exchange rate differences that were lower than in the first half of 2022. The value of financial costs is also influenced by interest on bonds convertible into shares, which was also lower compared to the first half of 2022.

Financial results by the Group's operating segments

Segment type (amounts in USD thousand)			1 January 2023 – 30 June 2023
	Lighting control	Items not allocated to segments	Total
Revenues and expenses			
Sales to external customers	1 070	-	1 070
Inter-segment sales	-	-	-
Cost of sales	635	-	635
Income and expenses (operating and other operating)	4	-882	-878
EBIT	**439**	**-882**	**-443**
Net financial income (costs)	-	-115	-115
Share in profits of associates	-	-	-
Gross profit	**439**	**-997**	**-558**
Income tax (current and deferred)	-	-48	-48
Net profit for the reporting period	**439**	**-949**	**-510**
Assets			
Costs of development work (carrying amount of the assets)	10 728	-	10 728
Trade receivables	635	-	635
Unallocated assets	-	1 767	1 767
Total assets			**13 130**
Liabilities			
Financial liabilities	-	2 473	2 473
Liabilities from contracts with customers	380	-	380
Unalocated liabilities	-	1 168	1 168
Total liabilities			**4 021**
Other information			
Depreciation and amortization	635	54	689

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

Interim consolidated statement of financial position of the Group

(amounts in USD thousand)	30 June 2023	31 December 2022	30 June 2022
Non-current assets	**11 687**	**10 535**	**10 233**
Capitalized expenditures on development work	10 728	9 648	9 660
Computer software	49	52	55
Property, plant and equipment	18	11	14
Right-of-use assets	105	84	36
Financial assets	7	6	6
Deferred tax assets	780	734	462
Current assets	**1 443**	**917**	**1 446**
Inventory	2	2	3
Trade receivables and other receivables	754	514	366
Cash and cash equivalents	687	401	1 077
Total assets	**13 130**	**11 452**	**11 679**

(amounts in USD thousand)	30 June 2023	31 December 2022	30 June 2022
Equity	**9 109**	**6 510**	**7 148**
Equity attributable to the shareholders of the parent company	**9 109**	**6 510**	**7 148**
Share capital	1 738	1 583	1 574
Capital from revaluation of options	194	490	506
Share premium account	30 760	28 176	28 106
Other capital	486	-180	208
Retained earnings	-24 069	-23 559	-23 246
Equity attributable to non-controlling entities	**-**	**-**	**-**
Non-current liabilities	**1 423**	**1 515**	**1 262**
Deferred tax liabilities	10	12	14
Lease liabilities	45	-	-
Liabilities under bonds convertible to shares	1 160	1 282	1 003
Prepayments and accruals on account of grants	208	221	245
Current liabilities	**2 598**	**3 427**	**3 269**
Trade liabilities and other current liabilities	338	310	313
Liabilities from contracts with customers	380	270	204
Lease liabilities	61	84	39
Liabilities on bonds convertible to shares	1 313	2 350	2 297
Other short-term provisions	106	40	49
Prepayments and accruals	400	373	367
Equity and liabilities	**13 130**	**11 452**	**11 679**

In the reporting period, the Group continued investments in development works which amounted to USD 10,728 thousand. Expenditure on development works was financed from own funds. As at 30 June 2023, the Group's assets amounted to USD 13,130 thousand. An increase in assets compared to 30 June 2022 by USD 1,451 thousand is mainly the result of increasing expenditure on development works by USD 1,068 thousand and an increase in trade receivables and other receivables by USD 388 thousand. The Company's

assets were financed mainly by obtaining additional sources of financing in the form of bonds convertible into shares and share issues.

The return on equity (ROE) amounted to -6%, compared to -26% in the comparable period. The return on assets (ROA) reached -4%, compared to -16% in the comparable period. Sales profitability improved from -3.60 to -0.48. The indicators were compared to 30 June 2022.

The current liquidity ratio, calculated as the ratio of total current assets to total current liabilities, in the analyzed period amounted to 0.56, up from the level of 0.44 in the comparable period. The quick liquidity ratio (current assets were adjusted by the level of inventories and prepayments and accruals) amounted to 0.54, compared to 0.43 in the previous period. The financial liquidity ratios were compared to the results as at 30 June 2022.

Consolidated cash flows of the Group

The Group recorded an increase in cash by USD 286 thousand compared to the beginning of the reporting period. As part of its financial activities in the first half of 2023, the company recorded a USD 5 thousand decrease in proceeds from the issue of shares and additional capital contributions compared to the first half of 2022. In the first half of 2023, proceeds from the issue of debt securities amounted to USD 1,150 thousand, an increase of USD 150 thousand compared to the first half of the previous year. Positive cash flows from financial activities in the amount of USD 1,112 thousand and positive cash flows from operating activities in the amount of USD 236 thousand made it possible to cover negative cash flows from investing activities (mainly expenditure on development works) in the amount of USD 1,062 thousand.

(amounts in USD thousand)	01.01.2023 – 30.06.2023	01.01.2022 – 30.06.2022
Profit (loss) before tax	**-558**	**-1 890**
Depreciation and amortization	689	693
Foreign exchange gains (losses)	-3	799
Interest and profit sharing (dividends)	74	94
Profit (loss) from investing activities	-	-
Movement in provisions	66	-1
Movement in inventory	-	-1
Movement in receivables	-263	-28
Movement in current liabilities, except for loans and borrowings	135	-14
Tax paid	-	-1
Movement in prepayments and accruals	39	-71
Other adjustments resulting from operating activity	57	138

Net cash from operating activities	**236**	**-282**
Disposal of intangible assets and property, plant and equipment	-	-
Purchase of property, plant and equipment	9	7
Expenditures incurred for development work and purchase of intangible assets	1 053	828
Net cash from investing activities	**-1 062**	**-835**
Net proceeds from issuing shares and additional capital contributions	11	16
Loans and borrowings drawn, new lease agreements	-	-
Proceeds from the issue of debt securities	1 150	1 000
Repayment of loans and borrowings	-	7
Repayment of lease liabilities	40	37
Interest	9	39
Net cash from financing activities	**1 112**	**933**
Net cash flows	**286**	**-184**
Movement in cash	**286**	**-184**
Movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**401**	**1 261**
Cash at the end of the period	**687**	**1 077**

Forecasts of the Silvair Group's results

The Silvair Group did not publish any forecasts of its results for 2023.

Management of financial resources

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

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

On 7 February 2023, the Board of Directors adopted a resolution approving the incurring of liabilities up to the total nominal value of USD 5.0 million in the form of a new issue of Convertible Securities. Adoption of a new issue of Convertible Securities results with the completion of the previous issue, despite the incomplete use of the previously adopted limit.

As part of the new issue of Convertible Securities, until the date of publication of this report, the Company has issued Convertible Securities for the total amount of USD 1.15 million.

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 condensed consolidated financial statements of the Silvair Group.

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 2023	31 December 2022	30 June 2022
Non-current assets	**89,01%**	**91,99%**	**87,62%**
Capitalized expenditures on development work	81,71%	84,25%	82,71%
Computer software	0,37%	0,45%	0,47%
Property, plant and equipment	0,14%	0,10%	0,12%
Right-of-use assets	0,80%	0,73%	0,31%
Financial assets	0,05%	0,05%	0,05%
Deferred tax assets	5,94%	6,41%	3,96%
Current assets	**10,99%**	**8,01%**	**12,38%**
Inventory	0,02%	0,02%	0,03%
Trade receivables and other receivables	5,74%	4,49%	3,13%
Cash and cash equivalents	5,23%	3,50%	9,22%
Total assets	**100,00%**	**100,00%**	**100,00%**

Structure of the Group's liabilities	30 June 2023	31 December 2022	30 June 2022
Equity	**69,38%**	**56,85%**	**61,20%**
Equity attributable to the shareholders of the parent company	69,38%	56,85%	61,20%
Minority interest	-	-	-
Non-current liabilities	**10,83%**	**13,23%**	**10,81%**
Current liabilities	**19,79%**	**29,92%**	**27,99%**
Equity and liabilities	**100,00%**	**100,00%**	**100,00%**

As at 30.06.2023, the value of the Group's assets comprised mainly capitalized expenditures on development work. In the current reporting period, there was an increase in the share of short-term receivables and a decrease in the share of cash in the value of assets, compared to 30 .06.2022. The lower share of cash was caused by a decrease in net proceeds from the issue of shares and additional capital contributions. The share of non-current liabilities in the structure of liabilities remained at a similar level as on 30.06.2022. As at 30.06.2023, the value of the share of equity in the balance sheet total increased compared to 30.06.2022. This was due to the excess of the issue price above the nominal value of the shares.

Shares and shareholding structure

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 2023

The capital of Silvair, Inc. is divided into 17,384,932 shares. The par value of one share is USD 0.1. The number of shares expressed in units.

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	16 424 932	1 642	30 600	28 958
Preferred Stock	960 000	96	125	29
Total	**17 384 932**	**1 738**	**30 725**	**28 987**

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
- Christopher Morawski
- Krzysztof Januszkiewicz

Share capital ownership structure	Number of shares	% of shares	Number of votes [1])	% of votes
Rafał Han	2 031 965	11,69	3 663 965	16,52
Szymon Słupik	1 902 340	10,94	3 547 500	15,99
Krzysztof Januszkiewicz	2 687 644	15,46	2 687 644	12,11
Christopher Morawski	2 617 546	15,06	2 617 546	11,80
Adam Gembala	1 018 760	5,86	2 145 520	9,67
Other shareholders holding less than 5% of shares	7 126 677	40,99	7 522 757	33,91
Total	**17 384 932**	**100,00**	**22 184 932**	**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.

Updated information on the issue of Silvair, Inc. shares

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

Updated information on the issue of convertible securities of Silvair, Inc.

On 9 June 2022, the Board of Directors adopted a resolution approving incurring liabilities up to a total par value of USD 3.0 million in the form of an issue of debt securities with a fixed interest rate convertible to ordinary shares of the new issue of the Company (Convertible Promissory Notes; "Convertible Securities"). As part of this issue, the Company has issued Convertible Securities with a total value of USD 1.25 million.

On 7 February 2023, the Board of Directors adopted a resolution approving the incurring of liabilities up to the total nominal value of USD 5.0 million in the form of a new issue of Convertible Securities. Adoption of a new issue of Convertible Securities results with the completion of the previous issue, despite the incomplete use of the previously adopted limit. As part of the new issue of Convertible Securities, until the date of publication of this report, the Company has issued Convertible Securities for the total amount of USD 1.15 million.

Information on the issue and on admitting Silvair, Inc. shares to public trading

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

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

On the following days: 2 January; 10, 17, 21 March; 1, 2, 16, 28 June; 28 July and 7 August 2023, Silvair, Inc. received – from Christopher Morawski, a member of the Company’s Board of Directors –notifications on transactions relating to shares which are referred to in Article 19 Section 1 of the MAR Regulation. The content of notifications was made public by the Company in the following Current Reports, respectively: 1/2023, 4/2023, 5/2023, 6/2023, 14/2023, 15/2023, 16/2023, 17/2023, 18/2023 and 19/2023.

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

On 28 March 2023, Silvair, Inc. informed that it had received – from Christopher Morawski and Krzysztof Januszkiewicz – notifications on the change of share in the total number of votes at the General Meeting. The content of the notification was made public by the Company in Current Report no. 8/2023.

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

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	17 384 932
Segment	Small company (capitalization in the range of EUR 5-50 million)
Sector groups	Information technology
Indices	InvestorMS, WIG-INFORMATYKA, WIG

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 2023	% of shares	Number of votes	% of votes
Rafał Han	2 031 965	11,69	3 663 965	16,52
Szymon Słupik	1 902 340	10,94	3 547 500	15,99
Christopher Morawski	2 617 546	15,06	2 617 546	11,80
Adam Gembala	1 018 760	5,86	2 145 520	9,67

First and last name	Number of shares as at 28 September 2023	% of shares	Number of votes	% of votes
Rafał Han	2 031 965	11,69	3 663 965	16,52
Szymon Słupik	1 902 340	10,94	3 547 500	15,99
Christopher Morawski	2 622 730	15,09	2 622 730	11,82
Adam Gembala	1 018 760	5,86	2 145 520	9,67

First and last name	Number of shares as at 30 June 2023	Change	Number of shares as at 28 September 2023
Rafał Han	2 031 965	-	2 031 965
Szymon Słupik	1 902 340	-	1 902 340
Christopher Morawski	2 617 546	5 184	2 622 730
Adam Gembala	1 018 760	-	1 018 760

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.

Corporate governance

Corporate governance principles applicable to Silvair, Inc.

As at the day of publication of this report, Silvair, Inc. was subject to the corporate governance rules described in the "Best Practice for WSE Listed Companies 2021". Information resulting from the corporate governance principles adopted by the Company are published on the following website: https://silvair.com/pl/relacje-inwestorskie/lad-korporacyjny/

Corporate governance principles that were not applied by the Issuer in the first half of 2023

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. See the comment to rule 2.3.

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 2.1.

- **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 4.1 and 4.5.

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 2.3 and 4.1

- **Remuneration**

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

This principle is not applied.

Company's explanation: Options granted under the Company's stock plan (2016 Stock Plan) provide for the possibility of their partial exercise before the expiry of 2 years from the date of granting the options, i.e.

within 2 years from granting the options as a result of partial exercise of options, a maximum of 50% of the Company's shares granted on the basis of options may be acquired. Despite the possibility of partial exercise of options before the expiry of 2 years from their granting, the Company generally applies a 4-year option exercise period.

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

This principle is not applied.

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

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

This principle is not applied.

Company's explanation: See explanation to rule 6.4.

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

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

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

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

Furthermore, the risk control and management process is effected by subjecting financial statements to verification by an independent statutory auditor. Annual financial statements of Silvair, Inc. and annual consolidated financial statements of the Silvair Group are verified by the same audit firm that issues audit reports. In turn, semi-annual consolidated financial statements are subjected to reviews on the basis of which review reports are issued. Information on the audit firm selected to audit and review financial

statements prepared by the Group and its members is presented in the section "Entity authorized to audit financial statements" of this Report of the Board of Directors on the activities of the Silvair Group and Silvair, Inc.

Silvair, Inc. shareholders holding significant stakes

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

Holders of securities with special control rights in the Company

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

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

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

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

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

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

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

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

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

Board of Directors

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

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

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

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

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

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

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

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

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

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

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

Members of Management

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

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

Subject to the powers (if any) of a member of Management following from his/her employment contract, any member of Management may be 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 2023, 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 presented period, 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.

W 2018 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 2023, 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 in 2023. 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.

Additional information

Employees

As at 30 June 2023, the Silvair Group (the parent company Silvair, Inc. and subsidiaries consolidated using the full method) employed a total of 43 persons. At the end of the comparable period of 2022, the Group's headcount was 48 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:

	30.06.2023	30.06.2022
Employment contract	22	27
Mandate contract	1	0
B2B*	19	20
Appointment	1	1
Total	**43**	**48**

*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 through organizing internal Tech-Talks or Creative Days.

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 Issuer signed a KPI Agreement, amended by an annex of 18 December 2017, specifying the conditions for granting share options to the beneficiaries indicated in the agreement (i.e. members of the management, key employees and associates of the Entity) under two option pools. Under the "Option Pool", a total of 971,000 shares ware to be awarded, and under the "Additional Option Pool" - a total of 482,000 shares were to be awarded.

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

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

Entity authorized to audit financial statements

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

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

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

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

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

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

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

Table: Auditor's fee

Scope of services	Reporting standards	Net fee (in PLN) for 2023	Net fee (in PLN) for 2022
Audit of the standalone annual financial statements	IFRS	27 500	25 000
Audit of the consolidated annual financial statements	IFRS	55 000	50 000
Review of the consolidated interim financial statements	IFRS	38 500	35 000
Total		**121 000**	**110 000**

Disputes

From 1 January to 30 June 2023, 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.

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 at 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 2023 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