



Management report
LiveChat Software Group
Q3 , 2017

Wrocław, February 20, 2017

Management report on the activities of LiveChat Software group

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LiveChat Software Group reported very strong financial results for nine months of the fiscal year 2017/2018. Consolidated net profit reached PLN 35.50mn, representing a 15% increase compared to the same period of the previous year. Consolidated sales of the Group rose by 21.4% to PLN 66.44mn.

The USDPLN exchange rate had a negative impact on financial results. This is due to the fact that the Group generates overwhelming majority of its sales in US dollars, while its expenses are in dollars (mainly the cost of IT infrastructure) and in the Polish zloty (e.g. salaries and related expenses).

The company has been posting very dynamic growth rates virtually since 2010, when it begun operations in SaaS model and when it first turned EBITDA-positive.

Metrics such as churn (customer attrition rate) or ARPU (Average Revenues Per Subscriber) both remain at very stable levels. Thus, the key metric that affects the financial results of LiveChat Software is the number of clients of “LiveChat” solution. The company is publishing current client figures (excluding users of “LiveChat” who are testing the product as part of a free trial period) at the beginning of each month. Such data represents key information for investors, giving them a chance to evaluate the growth rate of LiveChat Software in a credible manner.

The company intends to continue publishing the information of client figures on a monthly basis, as these numbers constitute key information for analysts and investors.

LiveChat Software is currently involved in work on numerous projects and tools, which are prepared with a bigger communications platform in mind. API documentation, the marketplace and the community of clients and companies being developed around the product for quite some time now, will, in a longer time-frame, allow LiveChat Software to develop a wider suite of communications-for-business related products and services. Aside from “LiveChat”, at the present time products available on the market include BotEngine, a platform which allows users to create their own chatbot without having specialized IT knowledge and Chat.io, a live chat-type solution whose structure facilitates smooth integration with very different platforms.

It is company’s intention to publish data about the number of clients of new solutions once they have a material impact on the group’s consolidated results.

The annual client number growth rate may decline due to the rapidly growing base. Meanwhile, on July 17, 2017, the meeting of shareholders has decided on the use of profits for the fiscal year ending March 31, 2017.

A total of PLN 36.31 mn was allocated as dividend, representing a record payment of PLN 1.41 per share. At the end of the period in question, the company had cash totaling PLN 18.5 mn, i.e. PLN 5.9 mn more than the year before. At present, the Managing Board sees no reasons to change the current dividend policy, under which the company will pay out its entire profit as dividend unless it sees investment projects that would ensure higher returns.

Taking into consideration the very strong financial situation, the Managing Board, upon acceptance of the Supervisory Board, has adopted a resolution on the payment of an advance dividend from profits for the fiscal year 2017/18. Consequently, on January 17, 2018, the company has paid such dividend, distributing a total of PLN 11.33 mn (PLN 0.44 per share) to shareholders.

In recent months companies such as Facebook and Apple have announced introduction of livechat-type solutions on the market. It is the assessment of the Managing Board that this information is potentially positive both for the company and for the development of the market as a whole. LiveChat Software believes that solutions of these companies will serve as new distribution channels for LiveChat Software (through integration), they will also help popularize live chat for business solutions. At the same time they will not be competing against the very specialized B2B solutions, which are characterized by quality customer service, safety or the numerous, expanded analytical features.

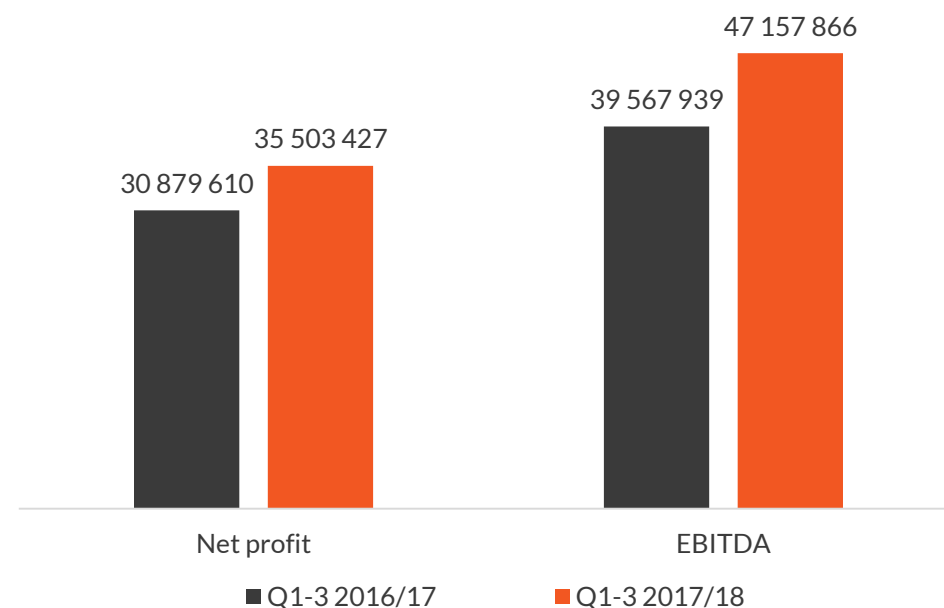
Operating summary

Selected consolidated financial data

[PLN]	Q1-3 2017/18	Q1-3 2016/17	Y/Y
Net sales of products, goods and materials	66 443 988	54 720 884	21.4%
EBITDA	47 157 866	39 567 939	19.2%
Operating profit (loss)	45 379 519	38 375 066	18.3%
Gross profit (loss)	44 099 863	38 478 518	14.6%
Net profit (loss)	35 503 427	30 879 610	15.0%
Net cash flow	- 4 108 751	674 114	-709.5%
cash flow from operating activities	36 020 131	30 205 669	19.3%
cash flow from investing activities	- 3 821 382	- 1 721 555	122%
cash flow from financial activities	- 36 307 500	- 27 810 000	30.6%
Profit (loss) per share	1,38	1,20	15.0%

[PLN]	December 31, 2017	Dec.ember 31, 2016	Y/Y
Total assets	47 563 632	35 760 630	33%
Liabilities and provisions	3 787 887	3 105 927	22%
Long-term liabilities	-	493	-
Short-term liabilities	3 787 887	3 105 927	22%
Net equity	43 775 745	32 654 210	34.1%
Initial equity	515 000	515 000	-
Number of shares	25 750 000	25 750 000	-
Book value per share	1,70	1,27	33.9%

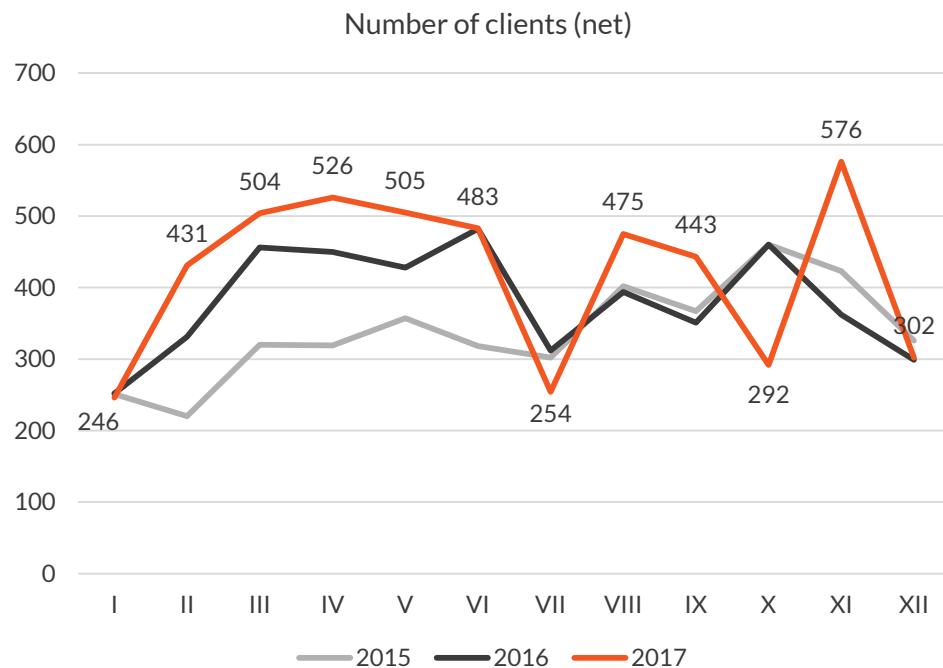
[PLN]	Q3 2017/18	Q3 2016/17	Y/Y
Net sales of products, goods and materials	22 830 143	20 173 001	13.2%
EBITDA	16 180 865	15 409 193	5.0%
Operating profit (loss)	15 543 022	14 968 532	3.8%
Gross profit (loss)	15 420 560	14 972 884	3.0%
Net profit (loss)	12 407 451	12 048 492	3.0%
Net cash flow	12 123 261	11 234 627	7.9%
cash flow from operating activities	13 606 433	11 296 802	20.4%
cash flow from investing activities	- 1 483 172	- 62 175	2285.5%
cash flow from financial activities	-	-	



Operating highlights

Key events

The company has recorded dynamic growth rates in the number of clients who are using the “LiveChat” solution in each month of the three quarters of the fiscal year. November was record-breaking for the Company as 576 net clients were acquired. Data on client acquisitions and growth rates are shown in the charts and tables below.



Annual growth rates are declining because of the rapidly increasing benchmarks. As the number of clients is increasing rapidly, the company is successfully maintaining its churn rate at a very stable level of 3% (with very small variances in individual months). The churn rate is significantly lower in the case of larger clients (corporations which use more expensive subscription plans and purchase greater number of licenses). These clients are a minority in terms of absolute numbers, but they generate a greater part of the company’s revenues.

While analyzing monthly data on the flow of clients please note that many of the months in the past period were the best in terms of net client acquisitions in the history of LiveChat Software. Results of individual months should be analyzed in comparison to data from the previous year, since they are subject to seasonal factors and are affected by the level of activity in the e-commerce sector.

On December 19, an Extraordinary General Meeting was held, appointing Mr. Michał Markowski as a member of the company’s Supervisory Board. He replaced Mr. Andrzej Różycki, who resigned from his position as board member on November 15, 2017. On the same date, the Supervisory Board has selected an Audit Committee from among its members.

On December 20, upon positive opinion of the Supervisory Board, the Managing Board has adopted a resolution on the payment of an advance towards dividend from net profit for the fiscal year April 1, 2017 - March 31, 2018. A total of PLN 11.33 mn, or PLN 0.44 was allocated for dividend. The record date was set for January 10 and the dividend was paid on January 17.

At the end of the year, Managing Board of the Warsaw Stock Exchange made a decision on index changes. As a result of these changes, shares of LiveChat Software were upgraded from sWIG 80 index to join mWIG 40 index.

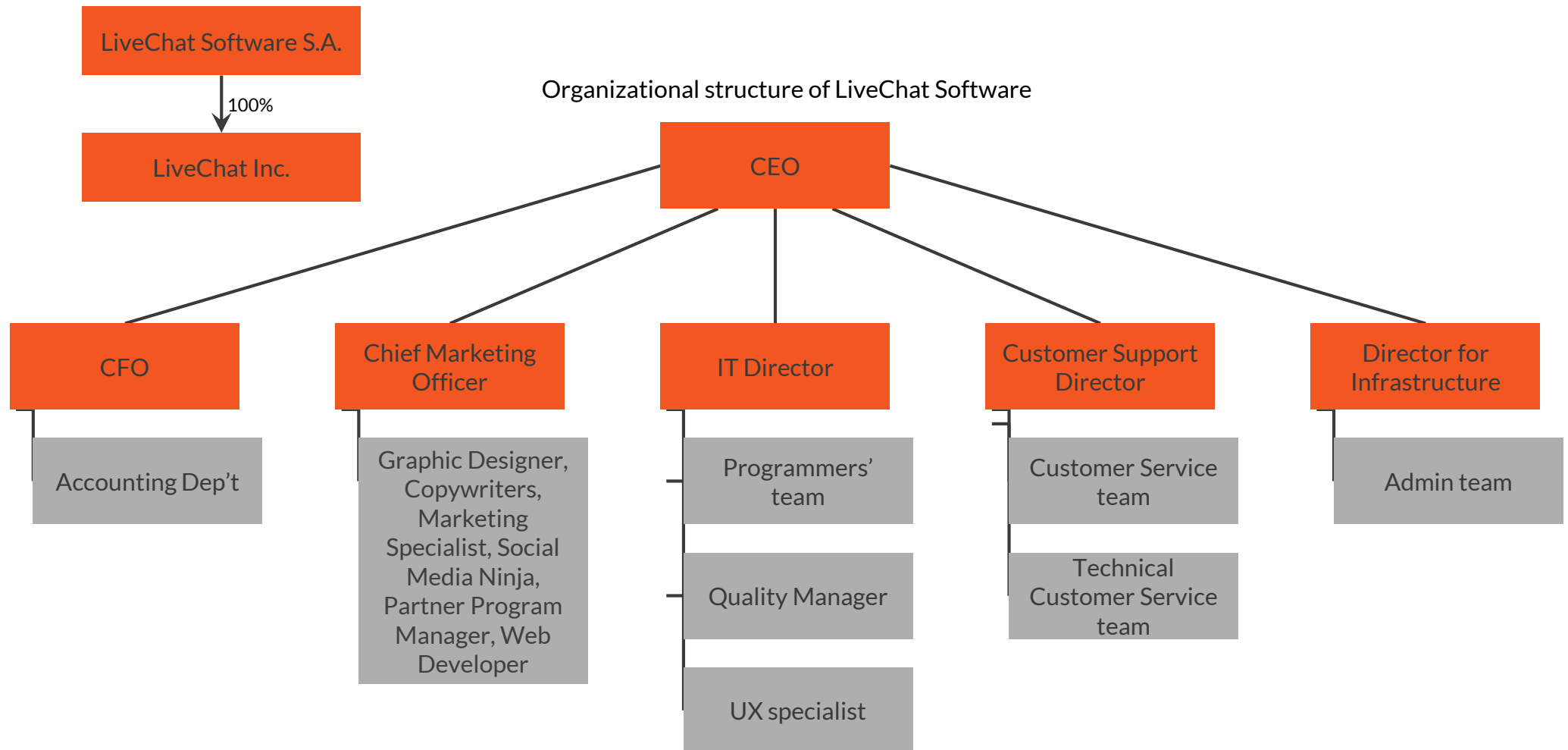
Structure of the LiveChat Software Group

LiveChat Software S.A. is the parent company of a group which consists of itself and its wholly owned US subsidiary LiveChat Inc.. Results of the US subsidiary are consolidated in full.

The company has no branch offices.

Changes in the structure of the group

There have been no changes in the organizational structures of companies which are part of the group in the period in question.



Description of the activities of LiveChat Software Group

Description of Group activities

LiveChat Software S.A. is a producer and a global supplier of Software as a Service LiveChat; it also offers chat.io and BotEngine communications for business solutions (a platform to create own chatbots, which is at a free, open Beta stage). The LiveChat product is designed for rapid, intuitive contact for people who visit the website to get in touch with company employees. Additionally, the app collects the information about client behavior on the website, an attractive source of information about sales, customer service and support process.

The company is a developer and distributor of the software, sold in the SaaS model, for business-to-consumer and business-to-business communications. The LiveChat product it offers is addressed to all companies, whose one common feature is the need for communications with clients over the Internet.

Current activities of the group include improvements of the LiveChat product by the developer team, provision of top-quality customer service and the development of new customer acquisition channels. A proven business model means that the marginal cost of acquiring new clients is close to zero. The relatively low level of recurring expenses coupled with marginal final cost of gaining new clients and the absence of needs for additional capex makes the business highly scalable while maintaining strong profitability. By using the right marketing policy, including the pricing, LiveChat product is addressed primarily to the SMEs, but the company is also trying to reach larger corporations through further development of the product, launch of new functionalities and price levels. A progressive price list lets LiveChat Software generate higher sales from clients, who use a greater number of LiveChat functionalities.

LiveChat Software is also managing a number of other projects, whose common denominator is the potential to increase the customer acquisition rate for LiveChat, as well as for chat.io and BotEngine.

These solutions are dedicated to business clients from all industries. Currently, IT sector companies account for the biggest group. Other big sectors represented among clients include retailers, education, marketing, games and gambling, automotive, entertainment, financial services, healthcare and tourism.

BotEngine

In 1Q, LiveChat Software has begun open beta testing of the BotEngine platform, which is intended to give its partners the ability to create own chat bots. tool has gone out of beta tests in mid february.

BotEngine is integrated both with “LiveChat” solution, but also with others, such as for example Facebook Messenger. Consequently, it can serve as a supporting feature of “LiveChat”, but it can also be treated and sold as a separate product.

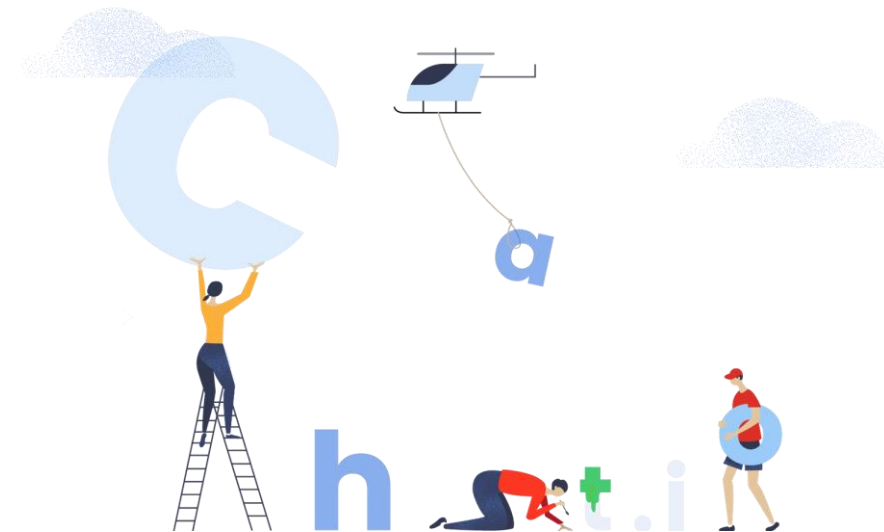
Chat.io

Chat.io is an advanced live chat-type solution, the end product of work by LiveChat Software. It differs from “LiveChat” by not having the ‘end of conversation’ state. All the interactions are open-ended, in the same way as an exchange of text messages. This structure makes integration with various other platforms more natural.

Chat.io is an early-stage project and is not being actively promoted. However, it is offered on a commercial basis and it does have paying customers.

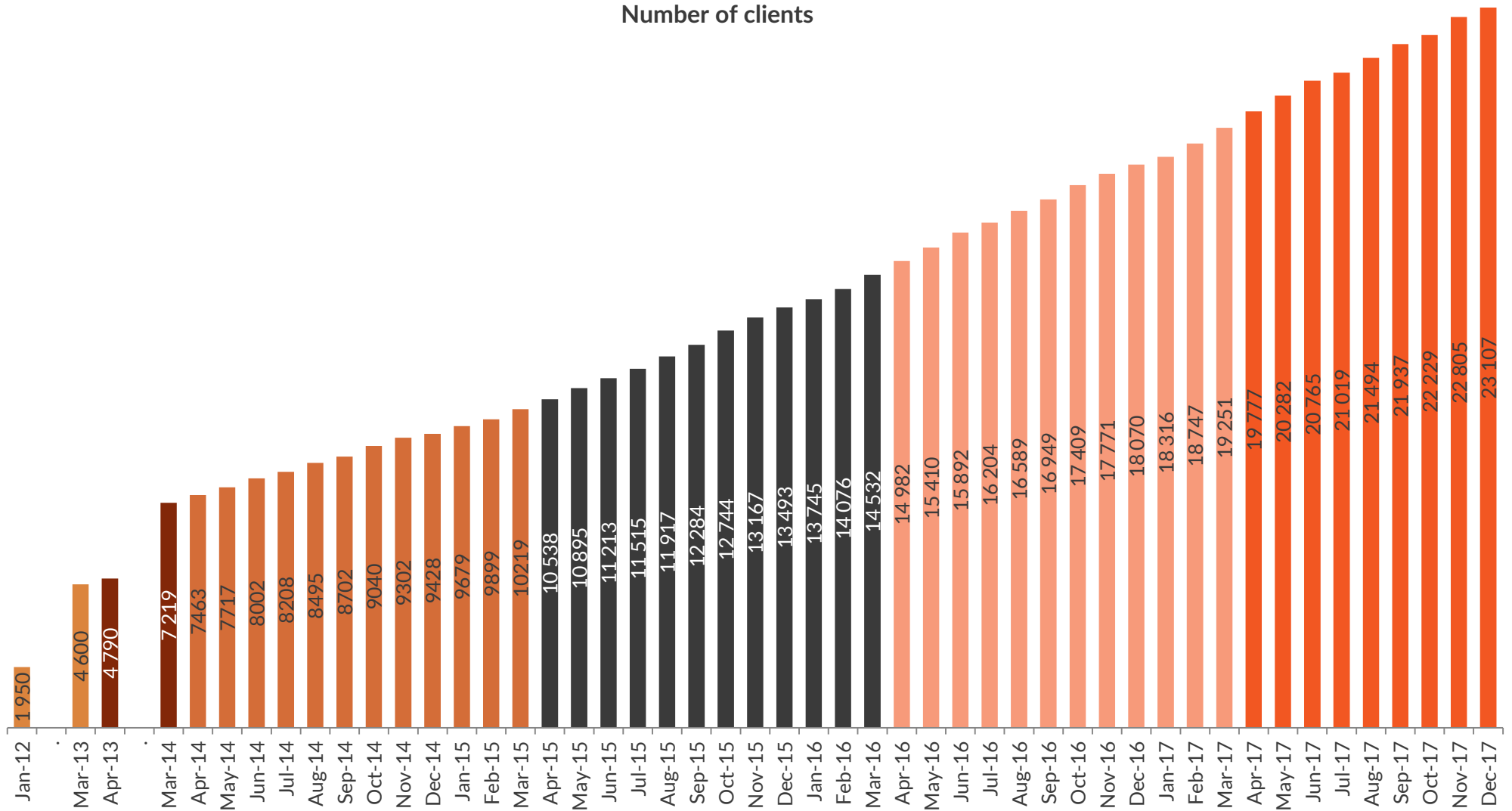
Due to the stage of this project and the currently very low revenues generated by Chat.io as a percentage of its overall sales, the company is not disclosing the number of current clients using this solution.

Chat.io is a solution integrated with Facebook and the company intends to give the users versions integrated with other platforms, including Twitter, e-mail and text messages.



Description of the activities of the LiveChat Software Group

Number of clients



Description of the activities of the LiveChat Software Group

Description of the situation on the market for SaaS services and the segment of live chat type software

The market for Software-as-a-Service is the most promising part of the Cloud Computing segment, i.e. the offering of IT software and products with the use of the computing cloud. The Cloud Computing segment is divided into private cloud, used by large corporations in order to optimize own resources, and public cloud segment, addressed to small and medium-sized enterprises, which gives clients greater control over expenses and an opportunity to spread them over time. SaaS is rapidly replacing traditional software by giving the clients a chance to optimize the resources they use, increase their reliability, scalability and the flexibility of solutions used. The Cloud Computing industry consists of the following subsegments:

- IaaS (Infrastructure-as-a-Service) – provision of IT infrastructure
- PaaS (Platform-as-a-Service) – sale of virtual work environment for developers
- BPaaS (Business-Process-as-a-Service) – outsourcing of business processes

Sale of a product in the SaaS model consists of the remote provision of software via the Internet. Services sold using SaaS include enterprise management and services supporting the sale of products and services. Sales of SaaS sector companies are generated mainly from subscription fees for access to such services, collected in advance. There are also numerous other fee-collection models, including fee per transaction, volume, function, limits on the use of resources.

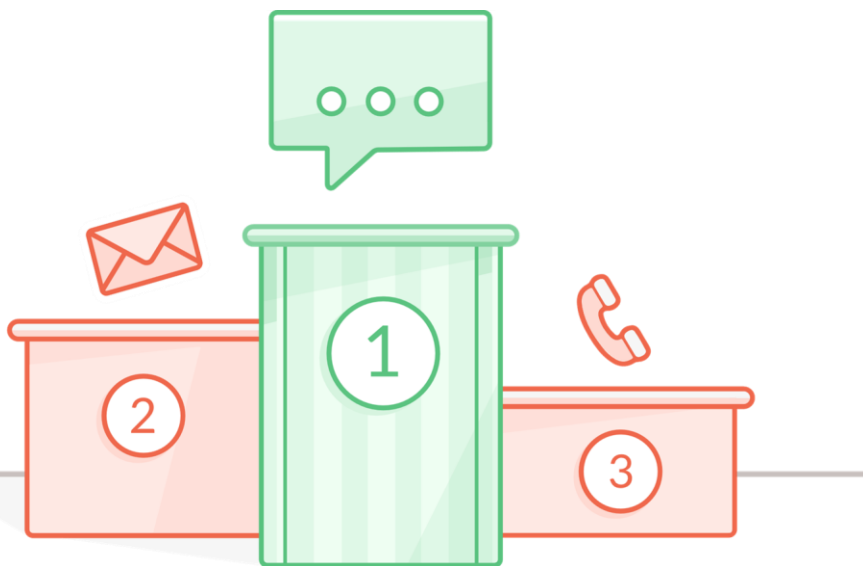
Sale of software in a SaaS model produces significant benefits for both the client and the provider. From client's perspective, the most common benefits include:

- very simplified application implementation process (short period of implementation coupled with marginal costs) - this also extends to updates of the software to its latest version, which is usually performed automatically by the provider and requires no steps to be taken by client
- significant savings in the cost of support and maintenance
- predictable, regular and relatively low subscription payments instead of a large, one-time, cost of purchasing the software and essential infrastructure
- flexible payment scheme which makes it possible to cease using the service at any time
- high degree of product scalability along with the increase of demand on client's side
- opportunity to use the application from any place using desktop computers and mobile devices.

From the point of view of the software vendor, the sale of software in the SaaS model is characterized by the following:

- simplified distribution process
- global reach of the services offered
- universal nature of the software
- control over the quality of implementation at every client
- reduced cost of maintenance and warranty
- elimination of the issue of software piracy
- developer retains all the copyrights

The SaaS market accounts for the majority of the Cloud Computing segment. By value, North America represents the biggest chunk of the global market, particularly the US, which accounts for c. 60% of that segment. The absence of cultural barriers associated with the use of advanced technology for business plays a significant role. This is particularly important from the point of view of vendors of SaaS software for small and medium-sized enterprises.



Description of the activities of the LiveChat Software Group

Description of the situation on the market for SaaS services and the segment of live chat type software

According to the available data (e.g. from Technavio, Datanyze) and the company's own estimates, the current value of the market for live chat type solutions may exceed USD 700m. However, these are only very approximate estimates since only some market players are publishing their financial results.

A vast majority of software vendors offer their solutions in the freemium model. In the opinion of the Managing Board of LiveChat Software, attempts to monetize clients who started to use free services is a very difficult and inefficient process. The LiveChat solution is characterized by the number of available options, features and integration. Also key is the quality of customer service, which is vastly higher than that of the majority of other providers. For these reasons, solutions available for free are not seen as a direct competition, since LiveChat is addressed primarily to the more demanding clients with more advanced needs both in terms of available features and the speed and effectiveness of customer support.

The list of top global suppliers of live chat type solutions is relatively stable. Aside from LiveChat Software, it also includes listed companies such as LivePerson Inc., Zendesk Inc. and Atlassian Corp.

LivePerson Inc. specializes in live chat solutions for big corporate clients. The company boasts of having over 18 000 clients. Both Zendesk and Atlassian offer a number of CRM-type solutions. In 2014, with the takeover of Zopim, Zendesk has begun offering a solution now known as Zendesk Chat. Companies such as Facebook and Apple have announced the introduction of their own livechat solutions. The industry has long expected these announcements. In the company's assessment, introduction of these solutions could have a significant impact on the growth of the entire, global market. At the same time they are not likely to be competitive against specialized solutions offered by companies such as Zendesk, LivePerson or LiveChat Software. On the contrary, they may represent an additional field of integration and serve as a new channel for the distribution of such products.

Comparison between the number of clients of Zendesk Chat and LiveChat
(source: LiveChat Software, Zendesk)

	31.12.2016*	31.03.2017*	30.06.2017*	30.09.2017*	31.12.2017*
Zendesk Chat (paid)	41.300	44.000	45.300	46.600	47 000
Quarter-over-quarter growth	+1.300	+2.700	+1.300	+1.300	+ 400
LiveChat (paid)	18.070	19.251	20.765	21.937	23 107
Quarter-over-quarter growth	+1.121	+1.181	+1.514	+1.172	+ 1.170

*A day later in the case of LiveChat

Other better known live chat type solutions available on the market include Olark, JivoChat, Tawk.to

Description of the activities of the LiveChat Software Group

Description of the situation on the market for SaaS services and the segment of live chat type software

LiveChat Software estimates that market potential of live chat-type solutions remains very high, an expectation arising from the potential of the e-commerce segment. According to eMarketer forecasts, in 2017 online retail sales will reach USD 2.29 trillion, representing 10.1% of the entire global retail sales.

By 2021 these numbers will rise to USD 4.48 trillion and 16% of the global retail sales respectively. A large influx of new client means that existing players are focusing more on client acquisition rather than vying for clients who already use competing solutions.

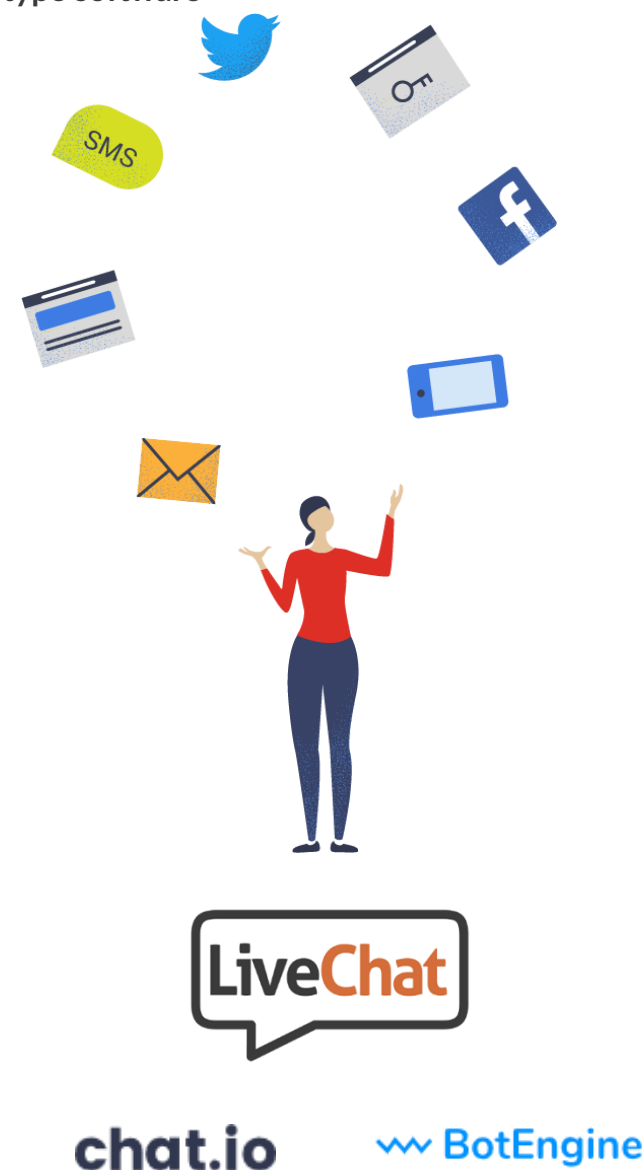
Additionally, the positioning of 'LiveChat' in the premium segment and developing its market position based on features such as the variety of functions and integrations, the quality of customer service, as well as reliability and safety of data rather than price, makes the company resistant to competition by popular free solutions.

In April 2016 trade publication Techcrunch wrote that Facebook is working with the developers of live chat type solutions to develop a plug-in for Facebook Messenger. LiveChat Software was among the teams to have worked with Facebook. Consequently, the LiveChat, BotEngine and chat.io solutions are integrated with Facebook Messenger.

The Managing Board of LiveChat Software is aware of the concern of Polish investors related to the developments at Facebook. Although the information about the complete business model are not yet known, the company sees it as a positive move which may have a beneficial impact on its market situation. The introduction of this solution by Facebook popularizes live chat communications with clients and will make the entire market grow faster. Facebook solution, most likely to be offered in a free or freemium model and in practice will not be a direct competition to LiveChat.

As a developer specializing in communications and chatbots, LiveChat Software is characterized by its expertise in the functional and analytical aspects. LiveChat Software continues to focus on the specialization of our tools on customer service and online sales, in terms of both communications and chatbots.

Thanks to the integration of LiveChat, BotEngine and chat.io, Facebook could turn into a new, very interesting distribution channel for these products.



Description of the activities of the LiveChat Software Group

Information about the agreements signed

Agreements which are material for the Group's activities

Agreement with a provider of payment gate services

LiveChat Inc., a subsidiary, is using the services of www.authorize.net, managed by CyberSource Corporation, a company headquartered in San Francisco, US, which serves as a broker and handles the technical aspects of online card payments. This agreement was signed by accepting the terms of use of Authorize based on general terms and conditions and is not made in the form of a document.

According to the above terms, the legal relationship between the users (including Livechat Inc.) and Authorize, is subject to the laws of the State of California. Authorize does not guarantee complete functionality of its services, offered via its website. By agreeing to the terms of use, the user confirms that he is aware that the service will be offered via the Internet, making it vulnerable to potential malfunctions of infrastructure due to causes such as DoS attacks or the interruption of power supplies.

Furthermore, Authorize is not responsible for any damages arising from the use of its services and in particular is not liable for the loss of data, unauthorized access to data transmitted via its website, such as credit card data. The above exclusion of liability is not restricted to the cause of such damages and events such as hacker attacks, accidents and negligence, including gross negligence, may not be used to make claims against Authorize. The user waives all claims that may arise from the use of Authorize services and states that he is using such services at his own risk. However, even if LiveChat Inc. was to be awarded payment of any damages by Authorize, the value of such payment will be limited to the amount of compensation for the past 30 days, or to USD 100.

Additionally, the user will not hold Authorize liable for any claims against it by third parties, which may arise in connection with the use of Authorize services.

Contractual terms may be changed by Authorize at its discretion and the use of its services following such change of terms will be treated as acceptance of such changes. Similarly, Authorize may terminate provision of services at its discretion upon prior notice. Termination of the agreement excludes compensatory liabilities by Authorize.

Agreement with the provider of payment clearing services

LiveChat Inc., a subsidiary, is using the services of www.recurly.com, a vendor which charges the payments of LiveChat clients and collects these amounts automatically from clients' credit cards. The agreement between the parties was signed by accepting Recurly's terms of use based on general terms and conditions and is not made in the form of a document.

The agreement is subject to laws of the State of California.

Recurly charges for the service a monthly commission on the value of transactions, expressed in US dollars, whose value may be changed by Recurly with a 30-day notice.

Recurly is not responsible and does not refund commissions in the event of Livechat's client asking for a refund or a fraud committed by the client against Livechat Inc. Also, Recurly is not offering cash storage services.

Recurly will not be held liable for any damages, including lost profits, data or other intangible losses by the user, regardless of cause, regardless of whether the loss is due to the use of Recurly services, unauthorized tampering with the content of its services, actions or statements made by any third parties. Regardless of the above, compensatory liability has between the parties has been restricted to the amount paid based on the agreement between the two.

Recurly is granting LiveChat Inc. a license to use its logo, name and other rights on its website in order to identify the entity offering this service. Similarly, LiveChat Inc. is granting a license to all the content posted on Recurly.

The agreement sets a one-year limitation period for all the related claims.

Recurly is charging turnover-based fees for the provision of its services.

Agreement with Global Payments Direct, Inc. and with Comerica Bank

This agreement was signed on December 21, 2011. Based on the agreement, LiveChat Inc., a subsidiary, is using Visa and MasterCard payment processing services. The agreement is subject to standard terms of use for credit card processing used by Comerica. Card processing includes in particular the settlement of Visa and MasterCard transactions in connection with Livechat product. The terms of use state that LiveChat Inc. will be handling any claims and complaints made in connection with sales made via these cards on its own. Livechat Inc. is also responsible for compensating any damages incurred by Global Payments Direct and by Comerica Bank in connection with sales paid for by card and for any associated claims (including claims by third parties).

Description of the activities of the LiveChat Software Group

Information about the agreements signed

Agreements which are material for the Group's activities

The agreement contains provisions which release Global Payments Direct and Comerica Bank from responsibility for the violation of such terms. Furthermore, the liability of Global Payments Direct and Comerica Bank is limited to the average monthly payment for services in the preceding 12 months, or, if such period is shorter than 12 months, from the signing of the agreement. Global Payments Direct and Comerica Bank will not be held liable for the loss of profits or for transactions using other cards, if such cards are to be processed at the request of Livechat Inc. at the agreement of Global Payments Direct. Also, Global Payments Direct and Comerica Bank are not responsible for damages if it has not been notified within 60 days of the violation of the agreement, or 90 days from the date of specific billing document in the event of billing errors.

The agreement is renewed automatically every month after the first year unless it is terminated by LiveChat Inc. on terms indicated in the agreement (with the provision that in the event of termination due to violation of the agreement, Livechat Inc. will be responsible for payments calculated based on terms set in the agreement). LiveChat Inc. may also terminate the agreement in the event of a violation by the other party if such violation is not remedied. Global Payments Direct may also terminate the agreement, including without notice, in the event of a violation by LiveChat Inc.

Terms of the agreement also describe in detail the rules for charging LiveChat Inc. with transaction amounts in specific cases, in particular when a card owner is questioning the transaction, setting up a reserve account to secure claims against LiveChat Inc., the principles concerning Livechat's liability for damages suffered by financial institution which carries out an order to withdraw funds at the request of Global Payments Direct and Comerica Bank, the principles of deducting funds from that account and associated settlements, and sets out a one-year term for the expiry of the claim by LiveChat Inc. to return any funds remaining on such account. Terms of the agreement also set forth the rules on the establishment of a security on specific accounts and on naming a custodian to manage a Livechat account for the settlement of agreement-related liabilities.

The agreement is subject to laws of the State of Georgia. Disputes relating to the agreement will be heard by courts of the state of Georgia designated in the agreement.

The agreement also grants a limited license for the use of the Discover Program mark (which identifies the Discover cards).

The price list for services is set out in the relevant price schedule.

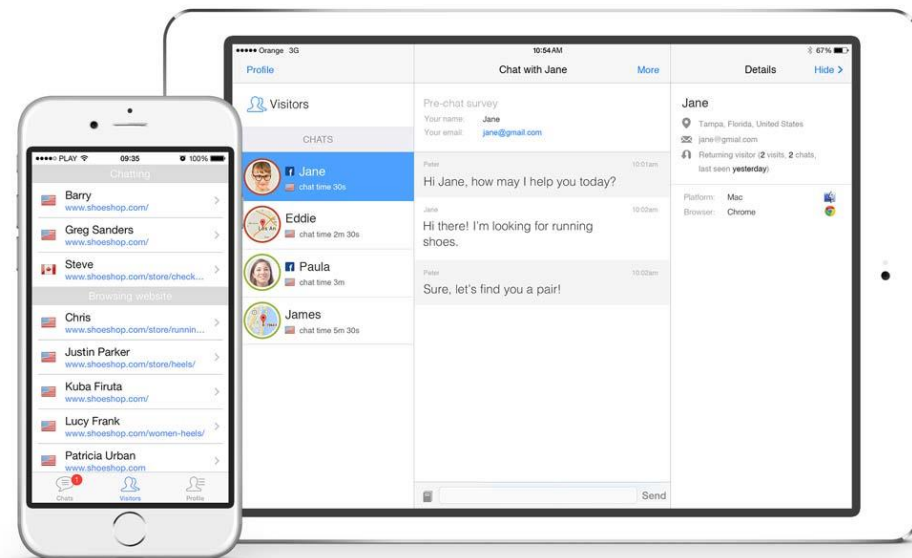
Agreement between LiveChat Inc. and American Express Company

A subsidiary, LiveChat Inc., is using the services of <https://merchant.americanexpress.com> in order to process American Express cards. This agreement was made by signing up for the services on the basis of terms and conditions it offers and is not made in a document form.

Fees charged to LiveChat Inc. in connection with the use of this service are set as a percentage of its turnover, at 2.89-3.20%, according to the current fee schedule. The terms of use include a number of waivers which exclude American Express Company from liability to its users. In particular, these terms exclude the liability of American Express Company for any indirect damages and for the loss of profits in connection with the use of the service.

According to the terms, American Express Company will not be held responsible for services offered by service-providers via the service in question, or for information and products offered through the service or through websites connected to the service via a hyperlink.

American Express Company may change the terms of use unilaterally. The terms of use are subject to the jurisdiction of the State of New York.



Description of the activities of the LiveChat Software Group

Information about the agreements signed

Information about material transactions with related parties

Agreement with LiveChat Inc.

On January 20, 2012, LiveChat Software has signed an agreement with its subsidiary LiveChat Inc., in which the subsidiary has agreed to further resell access to LiveChat system to end users from the United States of America.

According to the agreement, LiveChat Inc. purchases access to LiveChat system from LiveChat Software and then resells it to end users at a price set by LiveChat Software. LiveChat Inc. is not generating profits on the resale of access to LiveChat system.

LiveChat Software refunds all expenses of LiveChat Inc. in connection with the activities conducted and listed in the budget accepted by LiveChat Software, based on invoices issued by LiveChat Inc. According to the agreement, LiveChat Inc. has the right to add a 5% margin to selected expenses it incurs in connection with the sale, i.e. the cost of handling credit card payments, cost of banking services, accounting and marketing expenses.

These payments are made on a monthly basis based on an invoice issued by LiveChat Inc., corresponding to the amount of expenses plus the above margins. LiveChat Software remains the owner of all intellectual property rights, including its trademark.

This agreement was signed for an unlimited period of time, with a 14-day notice.

The agreement restricts LiveChat Software's liability to the amount paid on behalf of LiveChat Inc. over the past 12 months.

In the nine-month period ending December 31, 2017, revenue from sales of LiveChat Inc. totaled PLN 66 125 155 and the total value of expenses invoiced by LiveChat Inc. was PLN 11 254 945. Margins owed to LiveChat Inc. totaled PLN 171 308.84. In Q3 2016, these figures totaled PLN 54 110 679, PLN 9 869 202 and PLN 148 170.77 respectively.

[PLN]	Q3 2017/18	Q3 2016/17
Sales to LiveChat Inc	66 125 155	54 110 679
Cost of services purchased from LiveChat Inc	11 254 945	9 869 202

Information about the transactions with related parties at terms other than market terms

There were no such transactions.

Loan agreements made or terminated

The company had no loan agreements in the period from April 1, 2017 and December 31, 2017

Loans granted

The company has not made any loans.

Guarantees made or received

The company has not made or received any guarantees in the course of the reporting period.

Bond purchase agreements

The company had no bond purchase agreements in the 2017 fiscal year.

Collaboration or cooperation agreements

LiveChat Software has made no collaboration or cooperation agreements in the course of the reporting period.

Insurance agreements

Professional liability insurance at Chubb Tech Pro signed with Chubb European Group Sp. z o.o. Oddział Polska for PLN 1m (Poland) and USD 250 000 (the US), as well as Insurance to reimburse damages arising from claims against company directors and officers for a total of PLN 10m at Colonnade Insurance SA.

Description of ongoing court or administrative proceedings

The group has not been a party of any court or administrative proceedings during the reporting period.

Description of the activities of the LiveChat Software Group

Growth prospects

Market growth prospects

The Software as a Service sector, in which the company is active, is growing very rapidly. The live chat for business software segment is not the same as the SaaS market. Some of the company's competitors are offering their services in a less effective, traditional model. However, in the opinion of the Managing Board, the SaaS model has by far the best growth prospects and therefore the market share of companies which offer their services using that model is expected to grow. This represents huge growth potential for the entire sector.

Potential market launch of live chat solutions developed by Facebook, while not inevitable as it is at a pilot test stage only, could potentially help popularize this communications method and consequently lead to faster market growth.

Group's growth strategy

Product development

The company's development strategy is based on making continuous, balanced investments into further development of the LiveChat product, including in particular:

- a) functional development of the app;
- b) new communications channels;
 - development of the ticket system, which consists of collecting the information from a specific client from various communications channels into a single customer service system; all messages from clients are categorized, making it possible to address these messages in a short period of time; functionality of the system will help clients further improve the customer-vendor relations with the goal of increasing sales;
 - mobile systems;
 - social media;
 - an integrated communications tool
- c) data-driven tools for larger corporations

An increase in the customer base

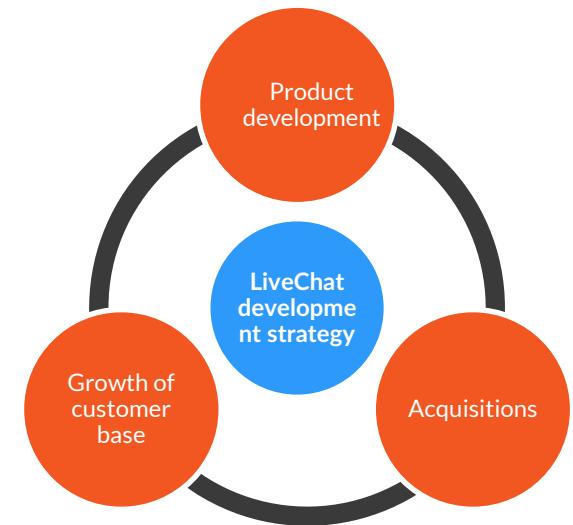
The company is foreseeing further, dynamic growth of the number of clients, based on the following factors:

- The tendency towards automation of the marketing activities and inbound marketing
- Continuous strengthening of LiveChat's market position in the area of customer service;
- A new rate plan for data-driven companies, giving the company a better reach to larger-sized corporations backed by dedicated Key Account Managers and the planned introduction of SLA (Service Level Agreement) services;
- Further development of the affiliate program in which our partners (interactive agencies, tech partners, call center operators, BPOs) receive a 20% commission on the payments received from each client they recommend for the entire term in which such client is paying for the service.

The company is also developing new products, including BotEngine and chat.io.

Acquisitions

In the longer term, the company is not excluding growth through selective acquisitions of entities from customer service industry.



Factors affecting company results

In the longer term, company results will be affected primarily by the situation of the global e-commerce and SaaS segments.

Financial situation of the LiveChat Software Group

Presentation of consolidated results

Income statement

[PLN]	Q1-3 2017/18	Q1-3 2016/17	Change
Sales	66 443 988	54 720 884	21.4%
Cost of goods sold	10 851 186	8 232 667	31.8%
Gross profit (loss)	55 592 802	46 488 218	19.6%
Cost of sales	5 216 736	5 037 438	3.6%
General management and administration	5 000 459	3 084 946	62.1%
Profit (loss) on sales	45 375 606	38 365 834	18.3%
Other operating income	9 000	9 232	-2.5%
Other operating expenses	5 088	-	-
Operating profit (loss)	45 379 519	38 375 066	18.3%
Financial income	95 403	110 121	-13.4%
Financial expenses	1 375 059	6 670	20515.6%
Profit (loss) before tax	44 099 863	38 478 518	14.6%
Income tax	8 596 437	7 598 908	13.1%
Net profit (loss)	35 503 427	30 879 610	15.0%

Discussion of the factors which affect company's financial results

The group's financial results are primarily affected by the number of clients and their growth rate.

In the nine-month period of the fiscal year 2017, the number of clients rose by 3,856, which represents a 16,8% increase from the beginning of the year. At the end of the first half the number of clients totaled 23,107 vs. 18,070 the year before, an increase by 27,9% on a year-on-year basis.

US dollar exchange rate also has a material impact on the results. Virtually all of the company's sales are denominated in US dollars.

Changes in the accounting policy

No changes in the voluntarily adopted standards or their interpretation were made during this reporting period, with the exception of the unification in the presentation of data on FX differences to match the data on the company's FX bank account.

Starting from the report for the first half of 2017/18 fiscal year foreign exchange differences arising from the presentation of the company's FX account balance are presented as a financial expense rather than, as before, as cost of goods sold. Change in the presentation of such data will have no impact on the company's net result.

Financial situation of the LiveChat Software Group

Presentation of consolidated results

Balance sheet - assets

[PLN]	December 31, 2017	March 31, 2016	Change
Fixed assets	10 200 055	8 061 900	26.5%
Intangible and legal assets	7 473 796	6 058 885	23.4%
Fixed real assets	754 988	572 413	31.9%
Long-term receivables	40 090	40 090	-
Deferred income tax assets	311 277	308 152	1.0%
Long-term prepayments	1 619 904	1 082 360	49.7%
Working capital	37 363 577	39 470 624	-5.3%
Inventories	-	-	-
Receivables for goods and services sold	806 886	476 027	69.5%
Other receivables	5 611 247	4 033 751	39.1%
Cash and cash equivalents	30 640 813	34 749 564	-11.8%
Short-term prepayments	304 631	211 282	44.2%
Total assets	47 563 632	47 532 524	0.1%

The group has no capital or other investments aside from cash on bank accounts.

Financial situation of the LiveChat Software Group

Presentation of consolidated results

Balance sheet - liabilities

[PLN]	December 31, 2017	March 31, 2016	Change
Own equity	43 775 745	44 648 505	- 2,0%
Initial equity	515 000	515 000	-
Retained earnings and equity resulting from merger transactions	7 311 156	893 933	717.9%
FX differences	- 61 351	7 335	-936.4%
Unallocated equity from the previous years	507 513	315 287	61%
Net profit (loss) for the fiscal year	35 503 427	42 916 950	-17.3%
Liabilities and provisions	3 787 887	2 884 019	31.3%
Long-term liabilities	-	-	-
Provisions on deferred income tax	-	-	-
Short-term liabilities	3 787 887	2 884 019	31.3%
Trade payables	3 259 337	2 230 794	46.1%
Current income tax	521 277	648 242	-19.6%
Other payables	7 272	4 983	46%
Total liabilities	47 563 632	47 532 524	0.1%

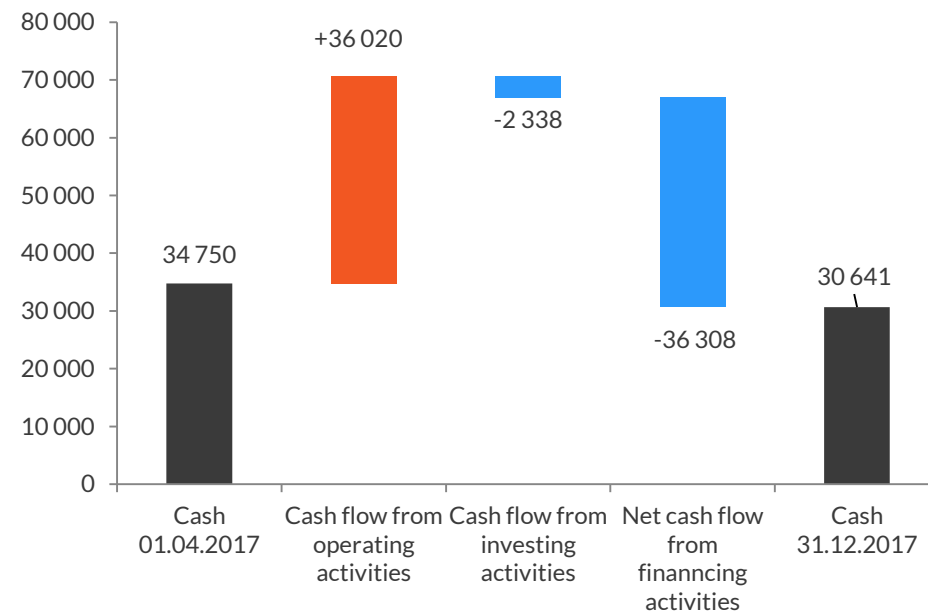
Financial situation of the LiveChat Software Group

Presentation of consolidated results

Cash position

[PLN]	Q1-3 2016/17	Q1-3 2016/17	Change
Gross profit (loss)	44 099 863	38 478 518	14.6%
Total adjustments, including:	- 8 079 732	- 8 272 849	-2.3%
Depreciation and amortization	1 778 347	1 192 873	49.1%
Income tax paid	- 8 792 089	- 7 598 908	15.7%
Cash flow from operating activities	36 020 131	30 205 669	19.3%
Interest received	95 118	103 452	-8.1%
Investments in intangibles and in real fixed assets	- 3 916 500	- 1 825 007	114.6%
Cash flow from investing activities	- 3 821 382	- 1 721 555	122.0%
Dividends paid	- 36 307 500	- 27 810 000	-30.6%
Net cash flow from financing activities	- 36 307 500	- 27 810 000	30.6%
Total net cash flow	- 4 108 751	674 114	-709.5%
Cash at the beginning of the period	34 749 564	23 213 934	49.7%
Cash at the end of the period	30 640 813	23 888 048	28.3%

thous. PLN



Financial situation of the LiveChat Software Group

Presentation of consolidated results

Dividend policy

According to the current dividend policy described in the company's issuing prospectus, the Managing Board of LiveChat Software S.A. will be recommending to the meeting of shareholders to pay out the entire profit for the specific fiscal year as dividend, unless the company sees investment opportunities that would give it, and the shareholders, a return higher than the dividend payment.

Description of material off-balance sheet items

The group has no material off-balance sheet items.

Group's financial projection

Managing Board of the company has not published financial projections for the fiscal year 2017/18.

Use of proceeds from the share issue

The company has not issued new shares in the course of this reporting period.

Basic ratios*

Basic financial ratios of the Group in the nine-month period of 2017 fiscal year were as follows:

Gross profit margins: 83.7%

EBITDA: 71%

EBIT: 68.3%

net margins: 53.4%.

Return On Equity has reached 108.2% while Return On Assets totaled 99.6%.

In the assessment of the Managing Board, these ratios are very high and will remain so at similar high levels in the subsequent reporting periods.

	Q1-3 2017/18	Q1-3 2016/17
Gross profit margin	83.7%	85%
EBITDA	71.0%	72.3%
EBIT	68.3%	70.1%
Net margin	53.4%	56.4%
ROE	108.2%	119.4%
ROA	99.6%	109.0%
Current ratio	9.9	9.1
Quick ratio	9.9	9.1
Cash ratio	8.1	7.7

* Definitions of these ratios are found on page 27

Information about shares and shareholders

Structure of the initial equity

As of the date of this report, initial equity of the company consisted of 25.750.000 (twenty five million, seven hundred and fifty thousand) ordinary shares issued and fully paid up, including 25.000.000 (twenty five million) series A shares and 750.000 (seven hundred and fifty) thousand series B shares. Par value of each share is equal to PLN 0.02 (two grosze).

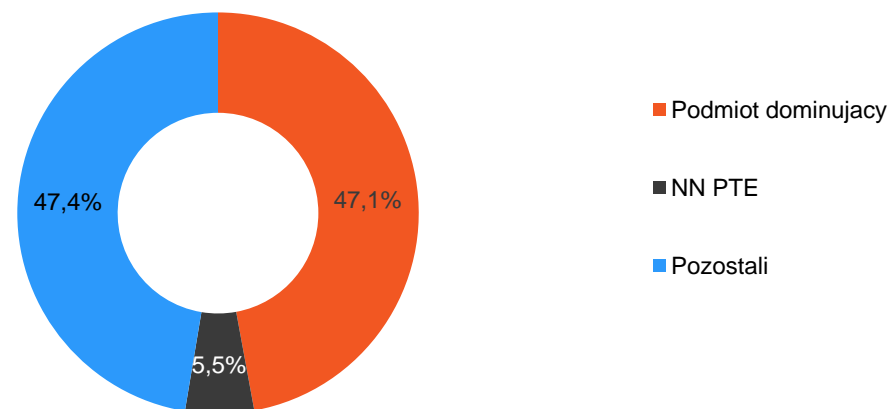
Shareholder structure

Shareholder	Number of votes	Voting stake
Nationale-Nederlanden Powszechna Towarzystwo Emerytalne	1 425 000	5,53%
Shareholder consortium - a dominant entity, including the following shareholders with over 5% stakes:	12 129 282	47,10%
Mariusz Ciepły	4 010 000	15,57%
Maciej Jarzębowski	3 010 000	11,69%
Jakub Sitarz	3 010 000	11,69%
Other shareholders	12 195 718	47,36%
TOTAL	25 750 000	100,00%

Certain shareholders have made a formal agreement on a joint vote:

The **shareholder consortium - dominant shareholder** consists of the following persons: Mariusz Ciepły, Urszula Jarzębowska, Jakub Sitarz, Maciej Jarzębowski, Szymon Klimczak, Krzysztof Górski.

At December 31, 2017 and February 20, 2018



Information about the shares and shareholders

Changes in the shareholder structure

The following changes took place in the company's shareholder structure in the course of the Q3 2017/18

On September 12, 2017, the company has been notified by Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A. about the launch of an accelerated book-building process by institutions acting on behalf of the fund NAPOLEON Fundusz Inwestycyjny Zamknięty, an entity close to Mr. Andrzej Różycki, who at the time served as Vice-President of the Company's Supervisory Board, as well as another company shareholder.

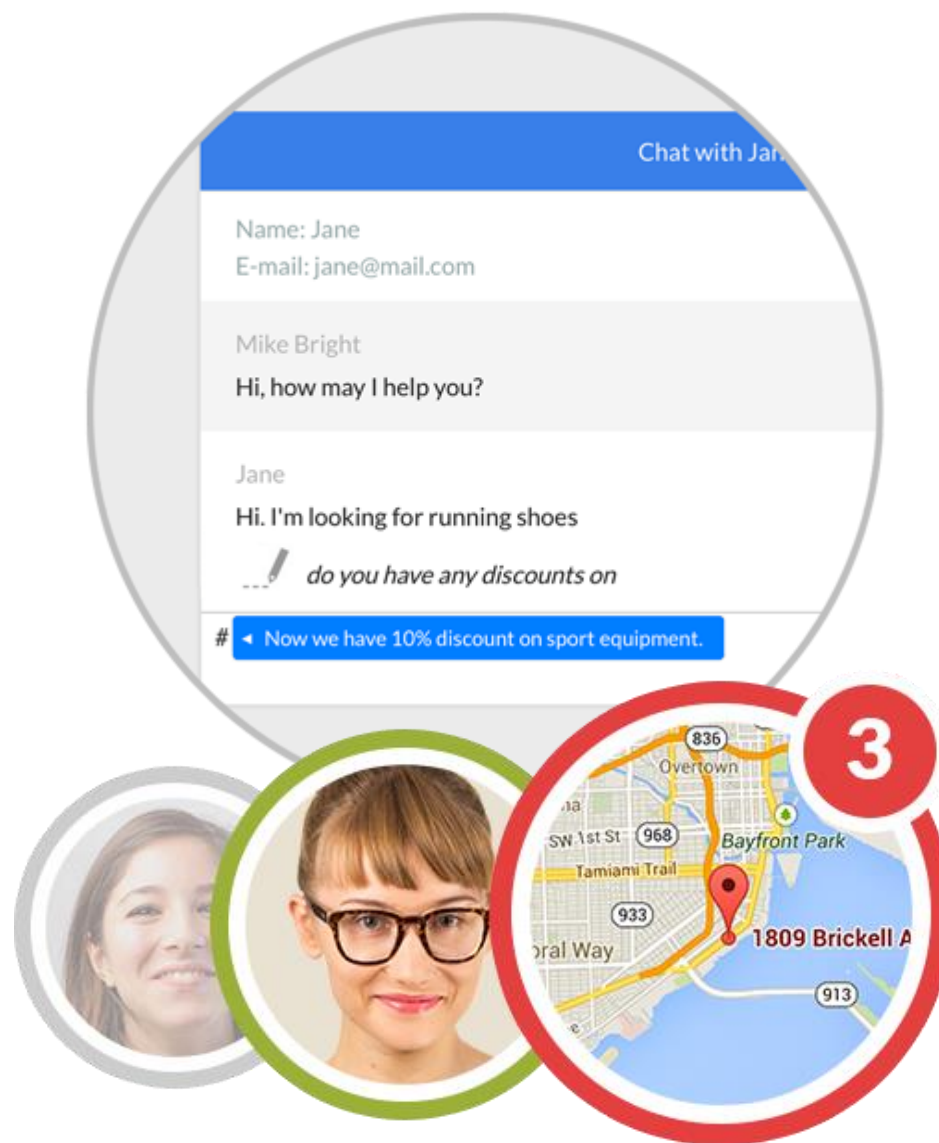
According to the notice received by the company, as a result of these transactions, combined stake held by Copernicus TFI has declined below 5% of the votes at the company's general meeting.

Prior to the transaction, FULCRUM Fundusz Inwestycyjny Zamknięty held 1.368.193 shares representing a 5.31% stake in the initial capital, FALCON Fundusz Inwestycyjny Zamknięty had 311.521 shares representing 1.21% stake, Napoleon Fundusz Inwestycyjny Zamknięty had 540.367 shares representing 2.1% stake in the company, Fundusz Inwestycyjny Otwarty Subfundusz Akcji had 196 shares representing a 0.0008% stake, while Copernicus Absolute Return Fundusz Inwestycyjny Zamknięty held no shares.

Following the transaction, FULCRUM Fundusz Inwestycyjny Zamknięty has 2.000 shares representing a 0.01% stake, Napoleon Fundusz Inwestycyjny Zamknięty has no shares of the company, Copernicus Absolute Return Fundusz Inwestycyjny Zamknięty has 3.000 shares representing 0.01% of the company's initial capital.

Combined, after the transaction, funds managed by Copernicus TFI and listed in the notice hold a total of 316.717 shares representing 1.2308% of the company's capital and the same voting stake at the meeting of shareholders.

At the same time LiveChat Software has received notices from members of the shareholder consortium (controlling the company) according to which its members Mariusz Ciepły, the CEO, Maciej Jarzębowski, President of the Supervisory Board and Jakub Sitarz, a member of the Supervisory Board, have purchased shares of the company in the ABB sale. According to these notices, each of the above has purchased 10.000 shares of the company at PLN 45 apiece.



Corporate officers

Composition of the company's Managing Board

As of the day of the financial report, the Managing Board of LiveChat Software consisted of two persons and included the following individuals:

First and last name	Role
Mariusz Ciepty	CEO
Urszula Jarzębowska	Board Member

Composition of the Managing Board has not changed in the course of the first half of the fiscal year 2017.

Mariusz Ciepty is one of the founders and core shareholders of LiveChat Software. He has been serving as the company's CEO since the year 2010. Mr. Ciepty has a degree in IT engineering, specialization in the engineering of IT systems, having graduated from the Faculty of Electronics at the Technical University in Wrocław. He is also a member of the supervisory boards at Time Solutions sp. z o.o. and Wakepark S.A.

Urszula Jarzębowska has been serving as a Board Member at LiveChat Software S.A. since the year 2010. She has been working at the company since 2002. Ms. Jarzębowska has a master's degree from the Business University im. Oskara Langego in Wrocław, Faculty of the National Economy, where she presented her master's thesis at the Department of Accounting and Corporate Controlling. During her professional career she has also completed post-graduate studies in Financial Controlling at the Higher Banking School in Wrocław and studies in the International Accounting Standards (IAS/IFRS) at the Leon Koźmiński Academy in Warsaw. She also has professional experience from companies such as Bankier.pl and Internet Works.

Compensation

Compensation of members of the Managing Board of LiveChat Software S.A. in the period between April 1, 2017 and December 31, 2017

First and last name	Role	Compensation (in PLN)
Mariusz Ciepty	CEO	162 000
Urszula Jarzębowska	Board Member	108 000
TOTAL	-	270 000

SHAREHOLDERS

TRANSPARENCY
PRINCIPLES

OGM
MANAGING BOARD

SUPERVISORY
BOARD

STAKEHOLDERS

CORPORATE
GOVERNANCE

TRUST

COLLABORATION

QUALITY

ARTICLES OF
ASSOCIATION

Corporate officers

Membership of the Supervisory Board

As of September 30, 2017, the Supervisory Board of LiveChat Software S.A. consisted of the following persons:

First and last name	Function
Maciej Jarzębowski	Chairman of the Supervisory Board
Andrzej Różycki	Deputy Chairman of the Supervisory Board
Marcin Mańdziak	Member of the Supervisory Board
Jakub Sitarz	Member of the Supervisory Board
Marta Ciepła	Member of the Supervisory Board

On November 15, 2017, the company has received notice from Mr. Andrzej Różycki about his immediate resignation from his position as Member of the Supervisory Board and Vice President of the Supervisory Board. Consequently, the Managing Board has called and Extraordinary General Meeting in order to appoint his replacement.

On December 19, the EGM has appointed Mr. Michał Markowski as a member of the Supervisory Board.

As of November 28, 2017, the Supervisory Board of LiveChat Software consisted of the following members:

First and last name	Function
Maciej Jarzębowski	Chairman of the Supervisory Board
Marcin Mańdziak	Member of the Supervisory Board
Jakub Sitarz	Member of the Supervisory Board
Marta Ciepła	Member of the Supervisory Board
Michał Markowski	Member of the Supervisory Board

Maciej Jarzębowski has secondary education (specialization: catering) He has completed Trade School of Gastronomy in Wrocław. Between 1999 and 2001 served as the CEO of Bankier.pl, between 2001 and 2006 as the CEO of Internet Works. Served as the CEO of LiveChat Software S.A. until 2010.

Jakub Sitarz has a master's degree, having graduated in IT studies at the Faculty of Electronics at the Technical University in Wrocław. He serves as key programmer at the developer team at LiveChat Software.

Marta Ciepła is a graduate of the University of Natural Science in Wrocław and post-graduate studies in human resources management. She is involved in IT industry for over a decade, in recruitment and selection of IT staff. An HR manager responsible for team development of the various departments at the company.

Michał Markowski has extensive experience in accounting and finances. He served as the director of the Department of Strategy and Analysis at the Warsaw Stock Exchange, where he was responsible for the development of a strategy, which resulted in an increase of the WSE's stock price by 26%. He also worked at Deloitte Advisory and InsERT. Mr. Markowski also served for over two years as the chief economist and minister's counsel at the Polish Ministry of Treasury. Since October 2016, Michał Markowski is conducting M&A transactions at ProService Finteco.

Marcin Mańdziak has a master's degree. He graduated from the Department of Law at the Faculty of Law, Administration and the Economy of the University of Wrocław and has been involved with the stock market for the past ten years. He co-founded and served for several years as the deputy CEO of M.W. Trade S.A., which became the first company to transfer from microcap NewConnect market to the main board of the Warsaw Stock Exchange. Since 2013 CEO and the main shareholder of EFM S.A. At the same time Mańdziak manages Arandela Marcin Mańdziak, a consulting firm. Member of the Supervisory Board at Venture Incubator SA..

Shares held by members of managing and supervisory bodies

The table below presents the number of shares held by members of managing and supervisory bodies as of the date of the report.

First and last name	Function	Number of shares held
Mariusz Ciepły	CEO	4 010 000
Urszula Jarzębowska	Board Member	1 210 250
Maciej Jarzębowski	Chairman of the Supervisory Board	3 010 000
Jakub Sitarz	Member of the Supervisory Board	3 010 000

Other information

Auditing firm

HLB M2 Spółka z ograniczoną odpowiedzialnością AUDIT PIE Sp. k with the registered office in Warsaw, ul. Rakowiecka 41/27, registered auditor no. 4123 has been selected to audit the Company's financial statements

Description of legal and administrative proceedings

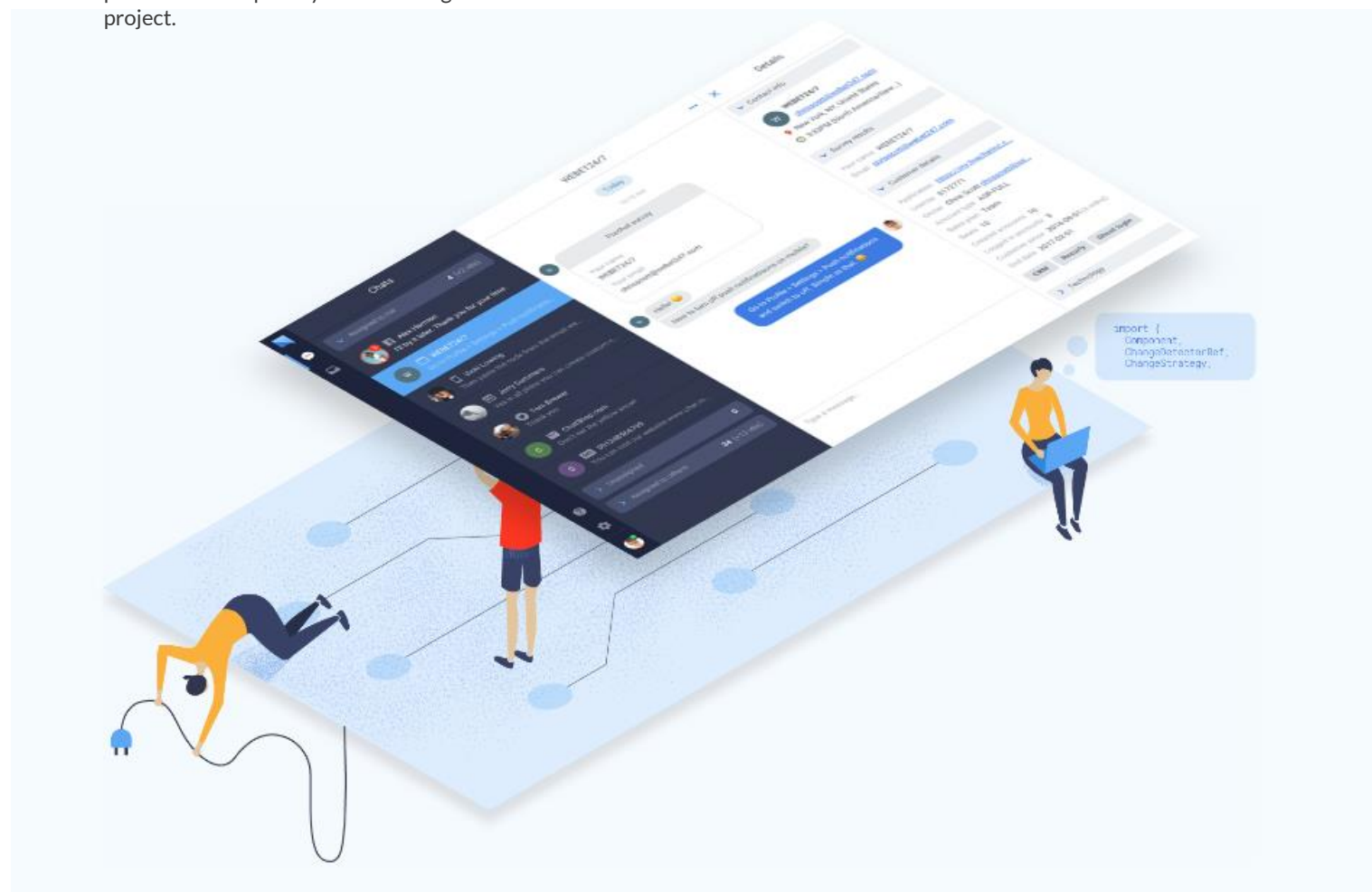
The Group has not been a party of any legal or administrative proceedings in the course of the reporting period.

Environmental issues

There are no issues and requirements relating to protection of the environment which could have a material impact on the Group's activities.

Information about the employment

At the end of December 2017, the Company had a regular working relationship with 79 persons. The biggest groups include software developers and the customer service department, working in a 24/7 model. The next largest is the marketing department and the smallest team is the Managing Board, Finances and Administration. The Managing Board consists of persons who spent years working on the LiveChat project.



Representation of the Managing Board

Wrocław, February 20, 2018

Unconsolidated financial report of LiveChat Software S.A., for the nine-month period ending on December 31, 2017, has been approved for publication by the Managing Board on February 20, 2018.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Wrocław, February 20, 2018

Consolidated financial report of LiveChat Software, for the nine-month period ending on December 31, 2017, has been approved for publication by the Managing Board on February 20, 2018



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Glossary

Financial ratios and industry terms and abbreviations

Ratio	Description
EBITDA	= Operating profit (loss) + depreciation and amortization
Gross sales margin	= $\frac{\text{Gross profit on sales}}{\text{Net sales}}$
Operating margin	= $\frac{\text{Operating profit (loss)}}{\text{Net sales}}$
EBITDA margin	= $\frac{\text{EBITDA}}{\text{Net sales}}$
Net margin	= $\frac{\text{Net profit (loss) for the reporting period}}{\text{Net sales}}$
Return On Equity	= $\frac{\text{Net profit (loss) for the past 12 months}}{\text{Own equity}}$
Return On Assets)	= $\frac{\text{Net profit (loss) for the past 12 months}}{\text{Total assets}}$
Current ratio	= $\frac{\text{Working capital}}{\text{Short-term liabilities}}$
Quick ratio	= $\frac{\text{Working capital - inventories}}{\text{Short-term liabilities}}$
Cash ratio	= $\frac{\text{Cash and cash equivalents}}{\text{Short-term liabilities}}$



LiveChat