



Report of the Management Board on the operations of LiveChat Software S.A. and LiveChat Software Capital Group for the period of 6 months ended September 30, 2018

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Management report on the activities of LiveChat Software Capital Group

Contents

Operating highlights

Structure of
LiveChat Software Group

Description of the activities
of LiveChat Software Group

Growth prospects

Financial situation

Shares and shareholders

Governing bodies

Management Discussion and Analysis

In the first half of 2018/19, the Group recorded PLN 52.1 million of revenue and PLN 28.3 million of consolidated net profit. This means an increase of 19.4% and 22.7%, respectively. In the same period, the standalone profit of LiveChat Software S.A. amounted to PLN 28.2 million.

The Group maintains very good operational ratios. In the first half of the financial year, the EBITDA margin was 70.4%, operating profitability 67.3% and net profitability 54.4%. In the wake of high margins, very good cash flows are following. In the reported period, the net operating cash flow amounted to PLN 28.8 million. As at 30 September 2018, the Group had cash and cash equivalents in the amount of PLN 19.8 million.

The excellent financial situation allows the Group to finance development from its own funds, and also to uphold the dividend policy. According to the said policy, it may allocate the entire profit generated during the financial year to the payments for Shareholders. What is more, it can continue to pay out advances on the dividend from the profit for the current financial year, which was initiated last year. The final decision in this matter will be taken by the Management Board of the Company taking into account its current situation and investment plans.

Of course, the key business indicator is the number of customers using the "LiveChat" solution, which increased in each subsequent month of the financial year and at the end of the first half of the financial year amounted to 25,398 (as at October 1, 2018), which means an increase of approx. 16% compared to the previous year.

In the Management Board's assessment, such a growth rate is not satisfactory. In its opinion, the Company is able to record significantly higher growth dynamics in the future. For a long time now, the Group has been running numerous projects aimed at its acceleration. Many of them are described in the further part of the report.

Our goal is to keep the role of an expert in the field of text communication. The Group intends to provide its partners with solutions that support them comprehensively in communication with their clients. In the first half of the financial year, our organization was focused mainly on the work related to the change in the appearance and usability of the LiveChat's flagship product and the implementation of subsequent improvements and functions in the BotEngine solution. However, at the same time, it speeds up work on other products and services included in the communication platform being built.

Returning to the financial results, it should be remembered that we generate virtually the entire revenue in US dollars, while costs both in US and Polish currency. This makes the USD/PLN rate crucial for the final reported financial result for the given period.

The Company's marketing activities are still focused on the organic acquisition of customers. Due to market changes, we not only develop current customer acquisition channels, but also actively acquire new ones. We are currently testing the effectiveness of paid activities aimed at reaching new customer groups. In the reporting period, the Company acquired the helpdesk.com and chatbot.com domains. They will play an important role in our marketing strategy regarding our platform and new products.

At the end of September, the LiveChat Software team comprised 107 people, at the time of publication of the report, we are still recruiting for many positions and by the end of the calendar year our team can grow to nearly 140 people. Increasing the team will help us to continue and accelerate the implementation of development projects, while providing the highest quality of service to current users of LiveChat and our other products. At the same time, we are developing a sales department.

In August 2018, we announced the launch of a review of strategic options. Its objective is to choose the best way to achieve our long-term goal - to become the global leader in live chat software. Until the publication of this report, we have not made a decision on the choice of a particular strategic option and the review of options is being continued.

To sum up, the financial results for the first half of the year confirm that we operate very effectively, in a changing environment we maintain a strong market position, and the progress of development works allows us to be optimistic in assessing the outlook for the next months.

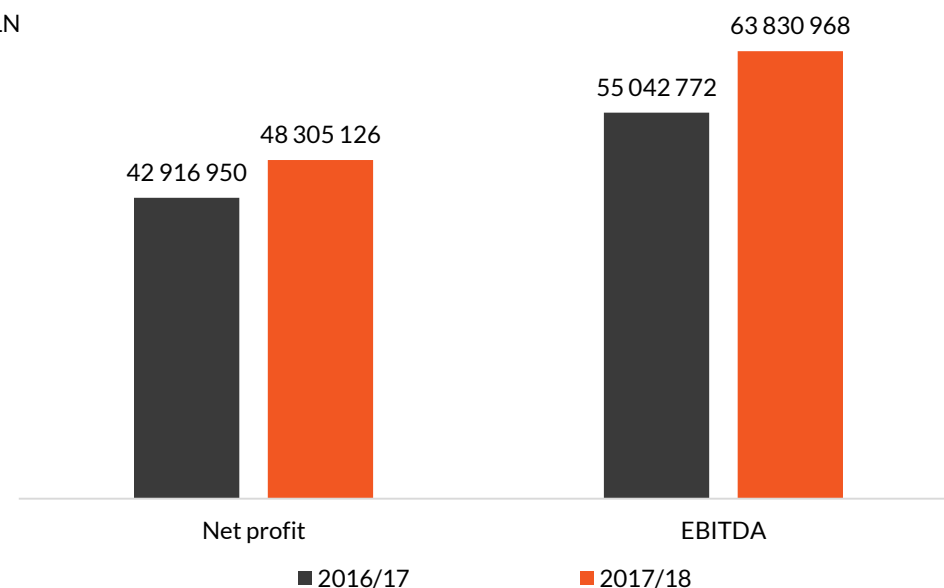
Operating summary

Selected consolidated financial data

| [PLN] | H1 2018/19 | H1 2017/18 | Zmiana |
|---|-------------------|-------------------|--------------|
| Net sales of products, goods and materials | 52 095 771 | 43 613 845 | 19.4% |
| EBITDA | 36 695 606 | 31 115 872 | 17.9% |
| Operating profit (loss) | 35 042 055 | 29 975 283 | 16.9% |
| Gross profit (loss) | 35 126 607 | 28 679 302 | 22.5% |
| Net profit (loss) | 28 328 390 | 23 095 976 | 22.7% |
| Net cash flow | -10 330 144 | -16 232 012 | -36.4% |
| cash flow from operating activities | 28 759 415 | 22 354 007 | 28.7% |
| cash flow from investing activities | -4 842 059 | -2 278 519 | 112.5% |
| cash flow from financial activities | -34 247 500 | -36 307 500 | -5.7% |
| Number of shares | 25 750 000 | 25 750 000 | - |
| Profit (loss) per ordinary share | 1.10 | 0.90 | 22.7% |

| [PLN] | 30 września 2018 r. | 31 marca 2018 r. | Zmiana |
|----------------------------|---------------------|------------------|--------|
| Total assets | 43 456 742 | 48 643 508 | -10.7% |
| Liabilities and provisions | 4 150 707 | 3 409 595 | 21.7% |
| Long-term liabilities | 0 | 0 | - |
| Short-term liabilities | 4 150 707 | 3 409 595 | 21.7% |
| Net equity | 39 306 035 | 45 233 913 | -13.1% |
| Initial equity | 515 000 | 515 000 | - |
| Number of shares | 25 750 000 | 25 750 000 | - |
| BVPS | 1.53 | 1.76 | -13.1% |

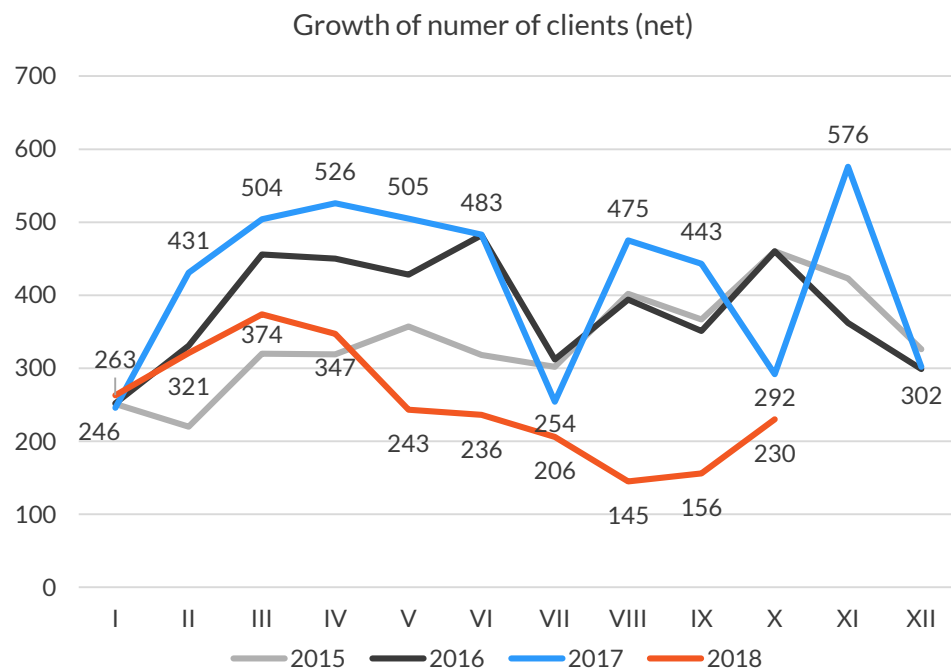
PLN



Operating summary

Key events in the three months of the fiscal year

The Company reported an increase in the number of customer using the LiveChat solution in each month of 1Q 2018/19. The figures relating to new clients and their growth rate are shown on the diagram below.



The annual growth dynamics are falling due to the rapidly growing comparative base. Despite the increase in the number of customers, the Company maintains the churn rate at a very stable level of 3% (with very small oscillations in individual months). The separation rate is significantly lower for larger clients (companies using more expensive subscription plans and purchasing a larger number of licenses).

At the end of the first half of the year, the Company served 25,398 active and paying users of Chat LiveChat solutions, compared to 21,937 customers a year ago. In the first half of 2018/19, the number of customers increased by 1,333.

The Company's offer is addressed to business customers - companies that have their own websites.

Currently, LiveChat Software customers choose from four subscriber plans. The final revenue per one customer depends on the selected plan, as well as the number of licenses purchased by them.

Since 1 April 2018 LiveChat Software has had a new organizational structure, which is presented on page 5.

On 7 August 2018, the Company's shareholders decided to distribute the profit for the financial year ended 31 March 2018, according to which the Company paid a dividend in the amount of PLN 45,577,500, the remaining part of the profit in the amount of PLN 2,495,833,49 was allocated to supplementary capital.

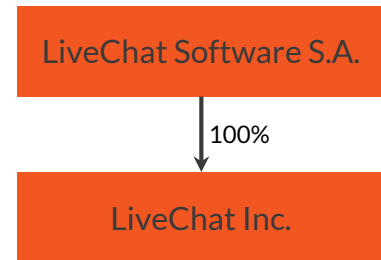
On 14 August 2018, the Group completed the purchase of the helpdesk.com domain. The purchase of the domain is a consequence of the implementation of operations related to the expansion of the product range. The Company plans to start work on launching a new product in the area of communication with the client. Then on 20 September 2018, the Group completed the transaction of acquiring the chatbot.com domain. The purchase of the domain was a consequence of the implementation of operations related to the expansion of the product range. Both domains will constitute a significant support for the Company's marketing strategy.

On 24 August 2018, the Management Board of the Company decided to initiate a review of strategic options supporting the further development of the Group's operations. The options review is aimed at selecting the best way to achieve the Company's long-term goal, which is the Group's development leading to the position of a global leader in live chat software and related customer service, including support services, by analyzing ways that can significantly affect the current business model of the Group.

Structure of LiveChat Software Group

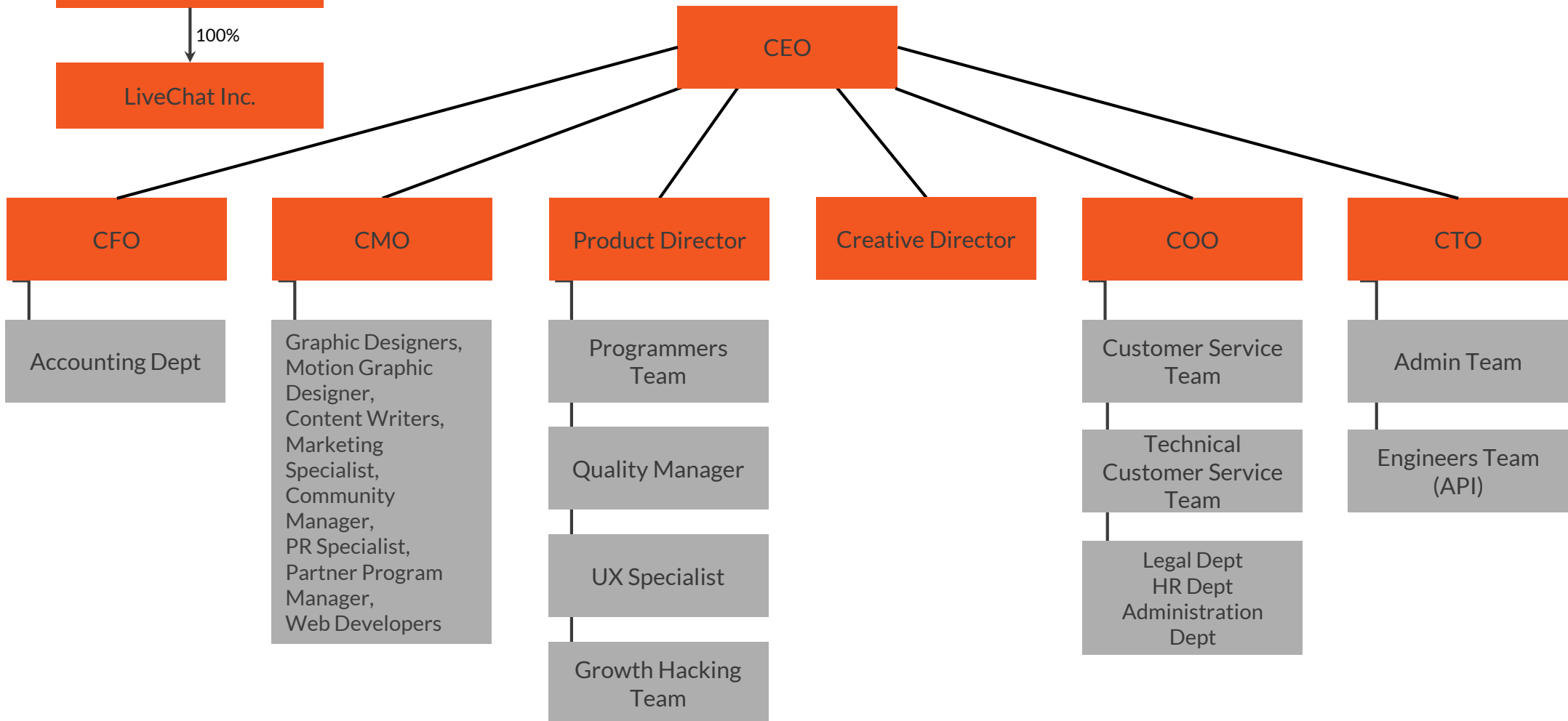
Structure of LiveChat Software Capital Group

LiveChat Software S.A. is a parent company which consists of itself and its wholly owned US subsidiary LiveChat, Inc. which is subject to full consolidation. The Company has no branch offices.



Structure of the organization LiveChat Software

The diagram below presents the organizational structure of the LiveChat Software Group, which is in force since April 2018.



Description of the activities of LiveChat Software Group

Description of Group's activities

LiveChat Software is a developer and a global provider of LiveChat software. Its corporate portfolio includes solutions such as [chat.io](#) (a live chat-type solution whose structure allows the integration with other chat platforms), [BotEngine](#) (a chatbot building platform) and [KnowledgeBase](#) (a knowledge base application).

The Company is a developer and a distributor of products sold in a Software-as-a-Service model), used in business-to-consumer (B2C) and business-to-business (B2B) text-based communications. At present, LiveChat Software focuses on the development of new products and on perfecting the ones already on the market, offering top-quality customer service (users of LiveChat product can contact the Company on a 24/7/365 basis) and the development of new customer acquisition channels.

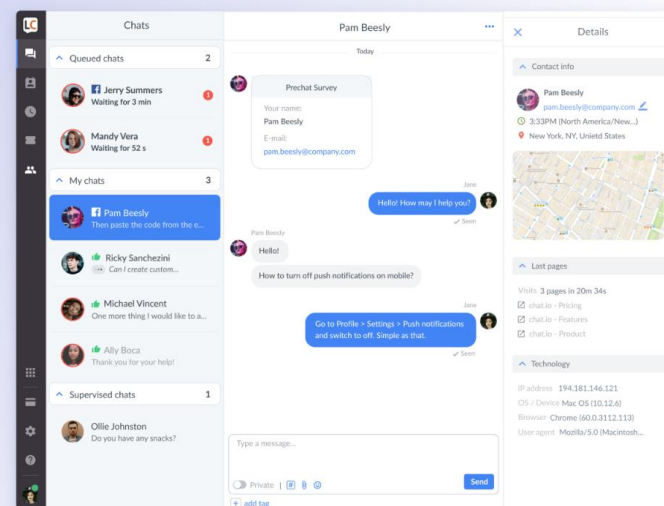
The Company has a proven business model with a marginal, close to zero customer acquisition cost. The relatively low level of recurring expenses and the marginal ultimate variable cost of new clients coupled with the absence of the need for additional CAPEX, gives LiveChat Software a high degree of scalability of its business while retaining strong profit margins.

Leveraging the right marketing policy, including pricing, LiveChat product is addressed primarily to SMEs, but the Company is also reaching out to corporations which operate on a larger scale, through product development, introduction of new features and pricing schemes. A progressive price list gives the Company an opportunity to generate higher revenues from clients who use a greater number of LiveChat functionalities.

LiveChat Software also runs a number of other projects, whose joint trait is the potential to accelerate customer acquisition growth rate. Its solutions are dedicated to business users from all industries. At present, IT companies account for the greatest number of clients. Other large sectors represented among clients include retailing, education, marketing, gaming and gambling, automotive, entertainment, financial services, health care and tourism. As of June 31, 2018, a total of 24,891 companies from 150 countries were using the LiveChat product.

The Company focuses on organic acquisition of new users for its products and this applies both to LiveChat solution and to BotEngine, KnowledgeBase or chat.io. Its clients originate from various sources, including Google search engine (SEO and content marketing), LiveChat Partners Program or the collaboration with other tech companies and mutual listing on Marketplace.

In recent months the Company reported lower than before increases in the number of clients using the LiveChat product. This was due to, among other factors, the introduction of new business models by software comparison sites, mainly by Capterra, GetApp, SoftwareAdvise, which are one of LiveChat Software's most important customer acquisition channels. After the takeover of these portals by Gartner, they changed their operating method which now focuses on paid auction model, contrary to the cost-free customer acquisition strategy. At the time of publication of this report, the Company is using the paid collaboration model proposed by these portals only to a limited extent.



Description of the activities of LiveChat Software Group

LiveChat

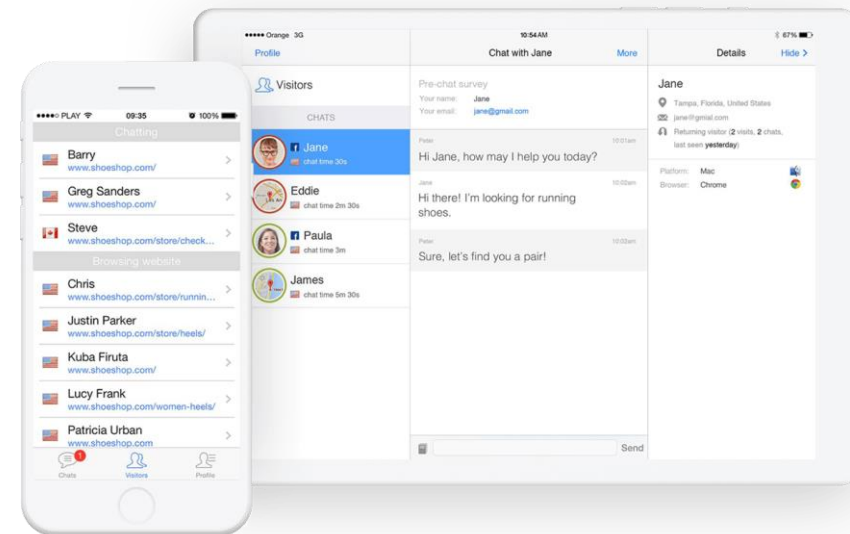
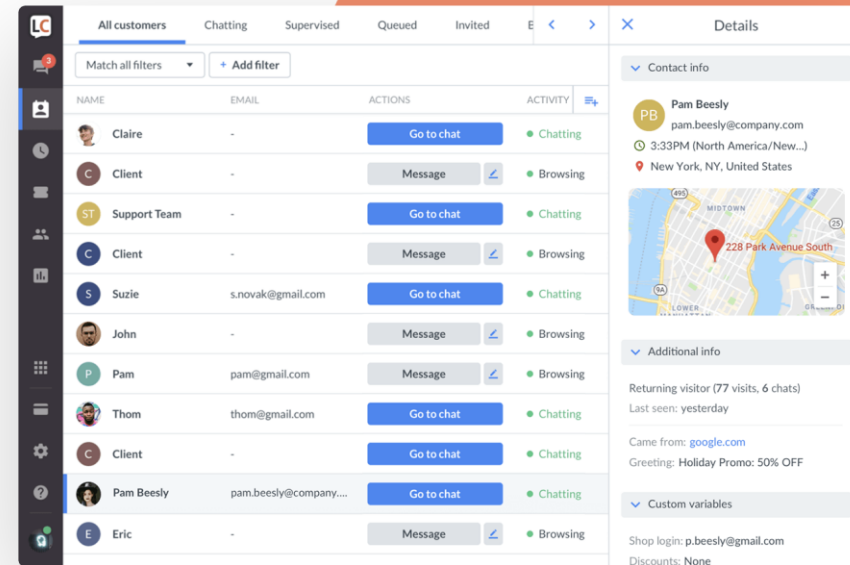
LiveChat product is a tool for quick contact between clients and the Company using a chat application embedded on the company's website. The solution is used mainly for customer service and online sales.

The company offers mobile application and desktop versions of the product and it is also possible to use it in a browser-based form. This gives users of the product an ability to chat with clients virtually anywhere and anytime.

Examples of the product's use are very varied. LiveChat solution can facilitate sales processes in e-commerce, serve as a recruitment supporting tool in education and HR and as a contact channel in industries which require personalized communications, such as real estate. The Company pays a lot of attention to insuring that the product's implementation on clients' websites, adopting it to clients' needs and the subsequent use be simple and intuitive, despite the advanced functionalities it offers. The onboarding process is also conducted in such a way, as to answer as many users' questions as possible early on. Thanks to this approach, the product can be used by SMEs, but also by large corporations.

The product offers numerous functionalities, not just facilitating conversation with clients, but also making communications management easier. Users are offered features which engage their clients (e.g. automatic invitations to start a conversation), a ticketing system (which makes it possible for clients to leave a message after hours), tracking the behavior of website visitors and an analytical panel. All the data collected using the LiveChat application are an attractive source of knowledge, to be used in the sales, service and customer support process.

The product's structure makes it possible for users to integrate it with other instruments, vastly expanding its usability. Clients have at their disposal one-click integrations (integrating the product with the specific tool virtually in a single click), or the more advanced features which require the use of documentation provided by the Company, e.g. the Application Programming Interface (API) and programming know-how. One of the more interesting integrations is the ability to activate chatbots created using BotEngine as part of the product. This gives companies the ability to communicate with clients both using live agents and AI-based mechanisms.



Description of the activities of LiveChat Software Group

LiveChat

LiveChat product as a platform

The idea of changing the direction of development of LiveChat product came in response to growing number of individual demands made by clients with respect to the application. LiveChat Software is developing the ecosystem around its solution in order to address and foresee client expectations.

The change of a business model to a platform will, over time, speed up the development of solutions created by the Company and will also facilitate the introduction of new functionalities. The platform will allow the creation and provision of new features not just to Company employees, but also to external parties (developers, software houses, partners and the users themselves). Thanks to the platform and the tools it makes available, everyone outside the Company is able to design their own add-ons or applications based on LiveChat technology. This way, it is possible to introduce solutions which the product lacks and which are key for that specific user.

The platform build around LiveChat solution consists of two closely tied parts. The first is the Developer Console, in which the Company is providing users with the tools (instructions, API documentation, sample code) for the creation of plug-ins and expansions. The other one is the Marketplace, the place where all the products which are designed, are stored and made available to users of LiveChat product (in both paid and free version). The third part is the community build around the platform, comprising all of its participants, as well as Company's clients. The purpose of the community is to share the experiences, develop new applications together and to make mutual contacts.

The main benefits from product development in a platform model is that these solutions become more flexible, which makes it possible to adopt their functionalities to user requirements in virtually any manner required. This strengthens user's relations with the product and makes it more difficult for them to quit. The platform also allows users to discover previously unknown uses of the given solution and the experience-sharing process.



Description of the activities of LiveChat Software Group

BotEngine

BotEngine is a product which allows the creation of conversational chatbots to handle various business scenarios. Their main goal is to automate corporate communications and to improve the effectiveness of customer service teams by addressing repeatable customer inquiries. The solution, introduced to the market, fits into the Company's strategy to develop the offering of products for text-based customer communications. At the same time it responds to the now popular trend towards automation of communications using AI-based mechanisms.

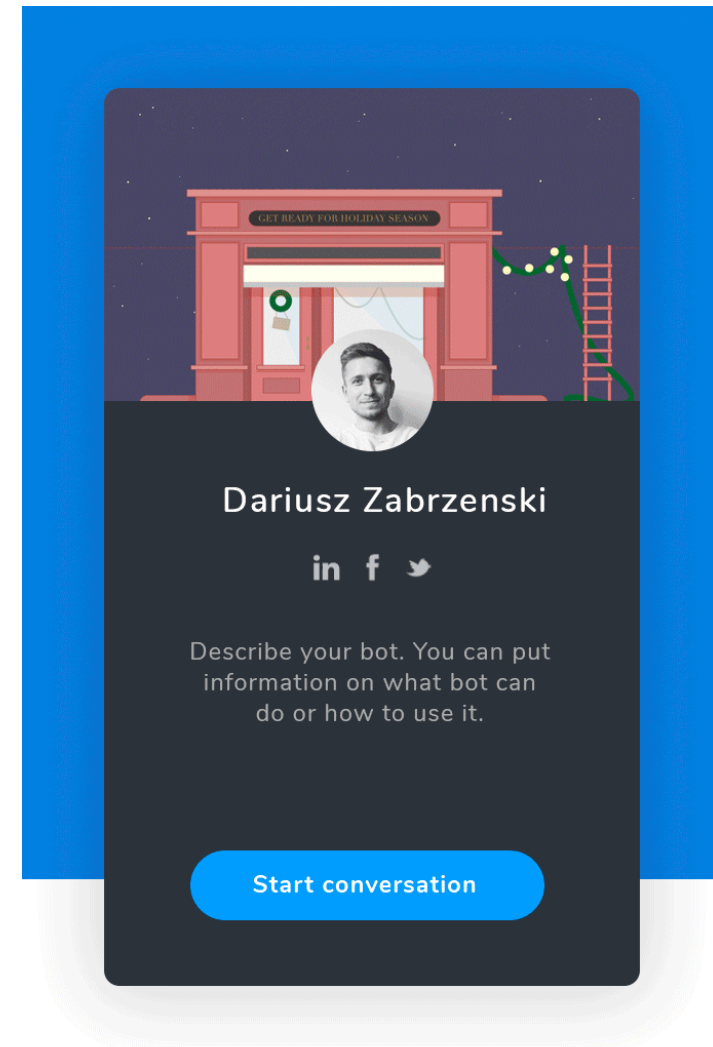
Bots are created by preparing a detailed tree-schemed script of the conversation. The script is based on drag&drop method, it is simple and intuitive and thus is also accessible to people who lack specialist programming knowhow.

Chatbots developed by BotEngine are based on two phrase matching systems used in the interaction with the client. The main one, machine learning, analyzes the entire phrase and the second is based on key words. They can be used alternately or even combined within a single script.

BotEngine is integrated with the LiveChat solution, but also with other tools, such as Facebook Messenger. Additionally, the user is able to connect their chatbot with an internal system, making it possible to verify and transmit data acquired by the bot during the conversation to other systems used by the Company. BotEngine's integration potential is virtually unlimited because the Company made available the app's API.

BotEngine is sold without the use of a dedicated sales team. The Company is promoting its solutions using cost-free methods, growing its user base organically. The solution is on the market since June 2017 (as an open beta version, as a complete product since February 2018). Its clients include Boston University, Kayak, Calgary or Velux. At present, the Company is not reporting the number of active users of this solution

For more information about the product, please visit <https://www.botengine.ai>



Description of the activities of LiveChat Software Group

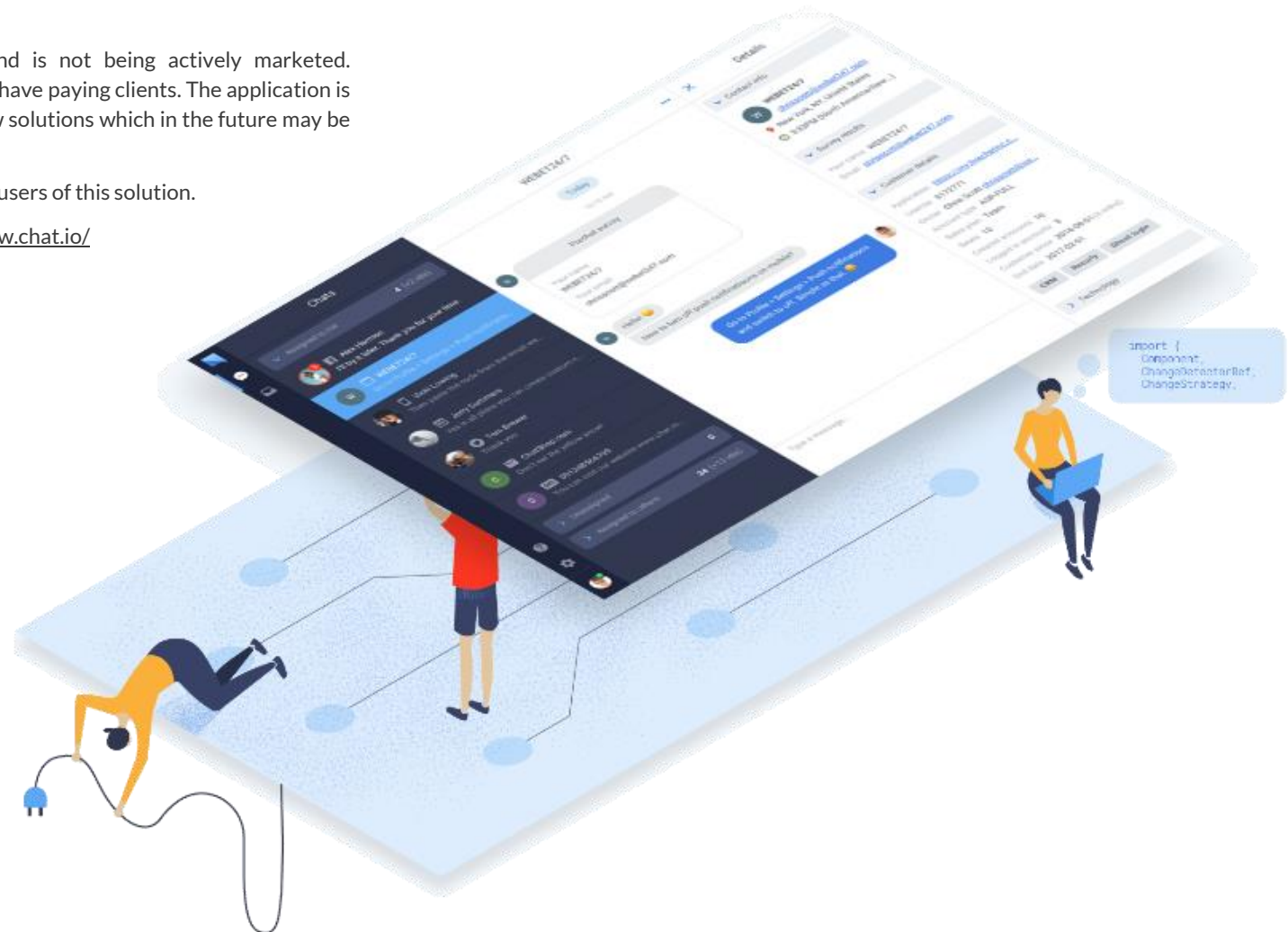
chat.io

Chat.io is an advanced, live chat-type solution. It differs from the Company's flagship LiveChat product by not having the 'end of conversation' state. All the interactions are open-ended, the same way as an exchange of text messages. This structure makes integration with various other platforms more natural. Chat.io is a solution integrated with Facebook.

Chat.io is an early-stage development project and is not being actively marketed. However, it is offered on commercial basis and does have paying clients. The application is also used to test and collect user opinions about new solutions which in the future may be incorporated into the LiveChat tool.

The Company is not publishing the number of active users of this solution.

Details of the product are available here: <https://www.chat.io/>



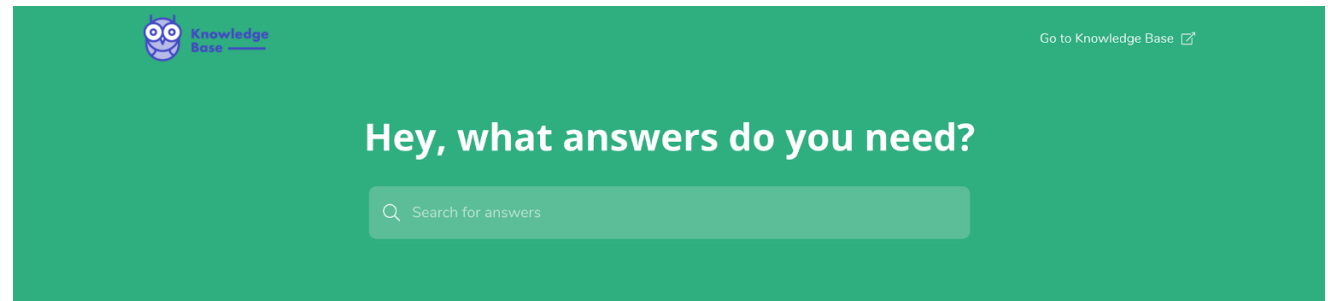
Description of the activities of LiveChat Software Group

KnowledgeBase.ai

The Company released this application in October 2017, initially as an open beta version and then, in March 2018 as a fully-fledged, paid product. KnowledgeBase platform lets companies create their own knowledge bases, which can be accessed by both their employees and clients.

Thanks to KnowledgeBase, articles relating to, for example, technical assistance, are all gathered in one place. This way, an employee doesn't have to switch between various browser tabs to seek out an answer to the question while dealing with customer service, but merely seeks out the information in the knowledge base. This boosts the efficiency of the customer service and speeds up communications with clients. At the same time, it lets clients seek out solutions to their problem by themselves. The application may be integrated directly with LiveChat solution.

For more information about the product please see <https://www.knowledgebase.ai>



Articles Management

- Articles' Visibility Control
- Formatting Knowledge Base Articles
- How To Add Images/Videos To The Kno...
- Write, Format And Publish Articles To Yo...

SEE ALL 4 ARTICLES →

General

- Adding Knowledge Base Widget To Live...
- Frequently Asked Questions
- What's Knowledge Base?

SEE ALL 3 ARTICLES →

Need help?
Chat with us!

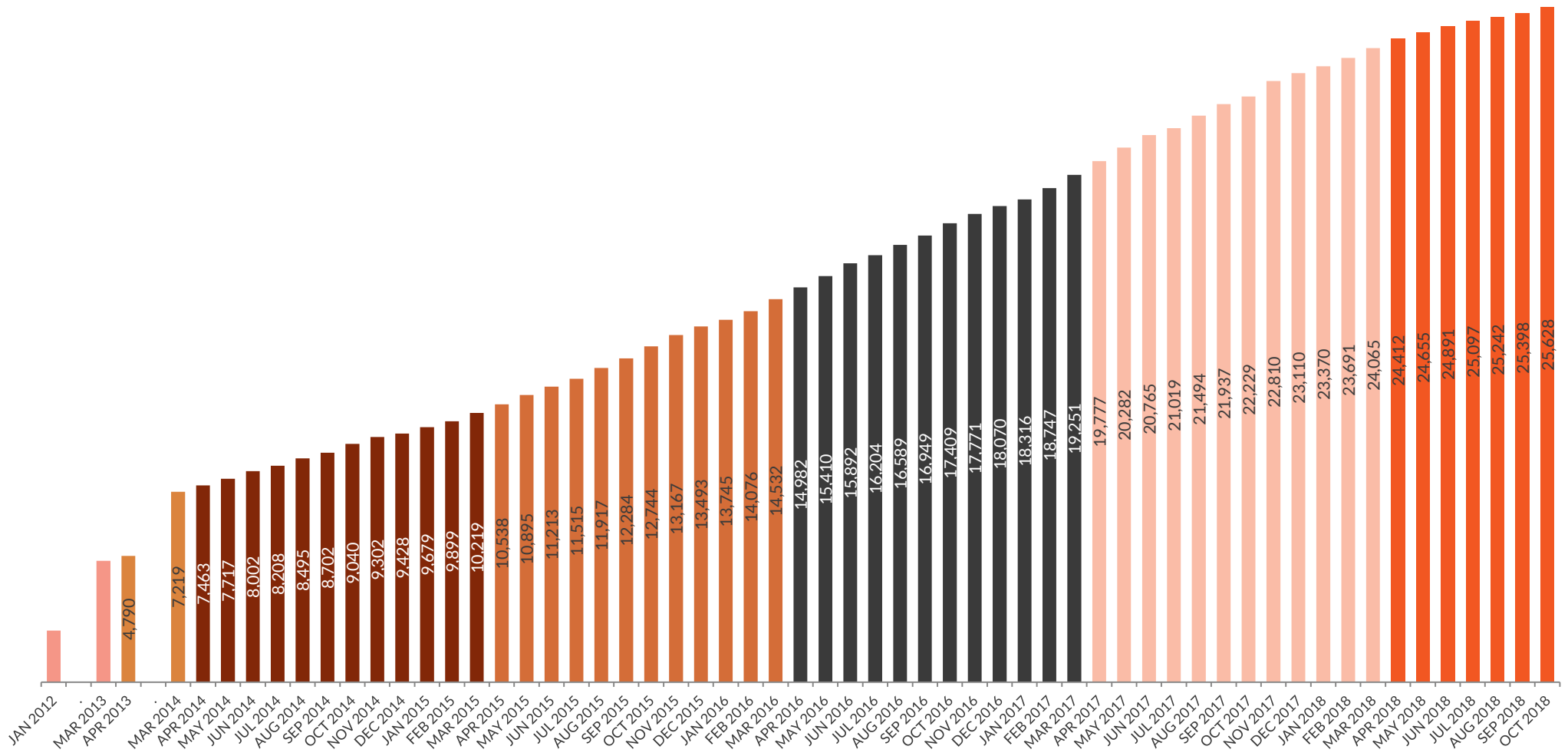
START CHAT



Description of the activities of LiveChat Software Group

Description of the Group's activities

Number of clients



Description of the activities of LiveChat Software Group

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

The Software-as-a-Service segment is the biggest and dynamically growing part of the Cloud Computing market, which involves providing services and offering products in the area of information technology through the use of Cloud Computing. The Cloud Computing business can be divided into private cloud, used by large corporations in order to optimize their resources, and public cloud, addressed to SMEs, which facilitates better control over expenditure and gives them a chance to spread costs over time.

According to estimates by Gartner research firm, in 2017 public cloud was worth USD 153.5bn, including the SaaS segment worth more than USD 60bn. It is estimated that by 2021 both markets will roughly double in value, to USD 302.5bn and USD 117.1bn respectively. Solutions in SaaS model are rapidly replacing traditional software, allowing clients to optimize the use of their resources, improve reliability, scalability and flexibility of their solutions. The Cloud Computing market is also divided into the following segments:

- IaaS (Infrastructure-as-a-Service) – providing IT infrastructure,
- PaaS (Platform-as-a-Service) – sale of virtual work environment for programmers,
- BPaaS (Business-Process-as-a-Service) – outsourcing of business processes,
- BaaS (Backend-as-a-Service) – common backend base for the processes supporting multiple applications,
- Daas (Data-as-a-Service) – data delivered remotely upon users' request,
- FaaS (Function-as-a-Service) – a platform facilitating development, testing and launch of various features in the cloud environment.

Sale of a product in the SaaS model consists of the remote provision of software via Internet. Services sold using SaaS include enterprise management and services supporting 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 other numerous 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 combined with marginal costs) - this also applies to the latest software updates, which are usually performed automatically by the provider and requires no further actions from the client,
- significant savings in the cost of support and maintenance,
- predictable, regular and relatively low subscription payments instead of a substantial, one-time, cost of purchasing the software and essential infrastructure as well as any subsequent additional costs,
- flexible payment scheme enables resignation from 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 software vendor point of view, sale of software in the SaaS model is characterized by the following:

- simplified distribution process,
- global reach of the offered services,
- universal nature of the software,
- control over the quality of implementation for 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 (USA in particular) represents the biggest part of the global market. The absence of cultural barriers associated with the use of advanced technology for business plays a significant role in the aspect of cloud solutions development. This is particularly important from the point of view of SaaS software for small and medium-sized enterprises.

Description of the activities of LiveChat Software Group

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

According to the available market data 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 Management Board of LiveChat Software, attempts to monetize clients who started using free services is a very difficult and inefficient process. The LiveChat solution is characterized by the number of available functionalities, options and integration possibilities. Quality of customer service is also key, since it is on a higher level than the majority of other providers are able to offer. For these reasons, free solutions are not seen as a direct competition, since LiveChat is addressed primarily to the more demanding clients with larger and 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 among others LivePerson or Zendesk Chat. Other more important live chat solutions available on the market are Olark, JivoChat, or Tawk.to (freemium model).

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

| | 30.09.2017* | 31.12.2017* | 31.03.2018* | 30.06.2018* | 30.09.2018* |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Zendesk Chat (paid) | 46,600 | 47,000 | 47,700 | 47,600 | 46,800 |
| Quarter-over-quarter growth | +1,300 | +400 | +700 | -100 | -800 |
| LiveChat (paid) | 21,937 | 23,107 | 24,065 | 24,891 | 25,398 |
| Quarter-over-quarter growth | +1,172 | +1,170 | +958 | +826 | +507 |

*A day later in the case of LiveChat

Description of the activities of LiveChat Software Group

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

LiveChat Software estimates that market potential of live chat type of software remains very high, an expectation arising from the development of the e-commerce segment. According to eMarketer forecasts, in 2017 online retail sales reached USD 2.3 trillion, an increase of 24.8% yoy and representing 10.2% of the entire global retail sales. A strong influx of new clients means that existing players are focusing more on client acquisition rather than fighting for clients who already use competing solutions.

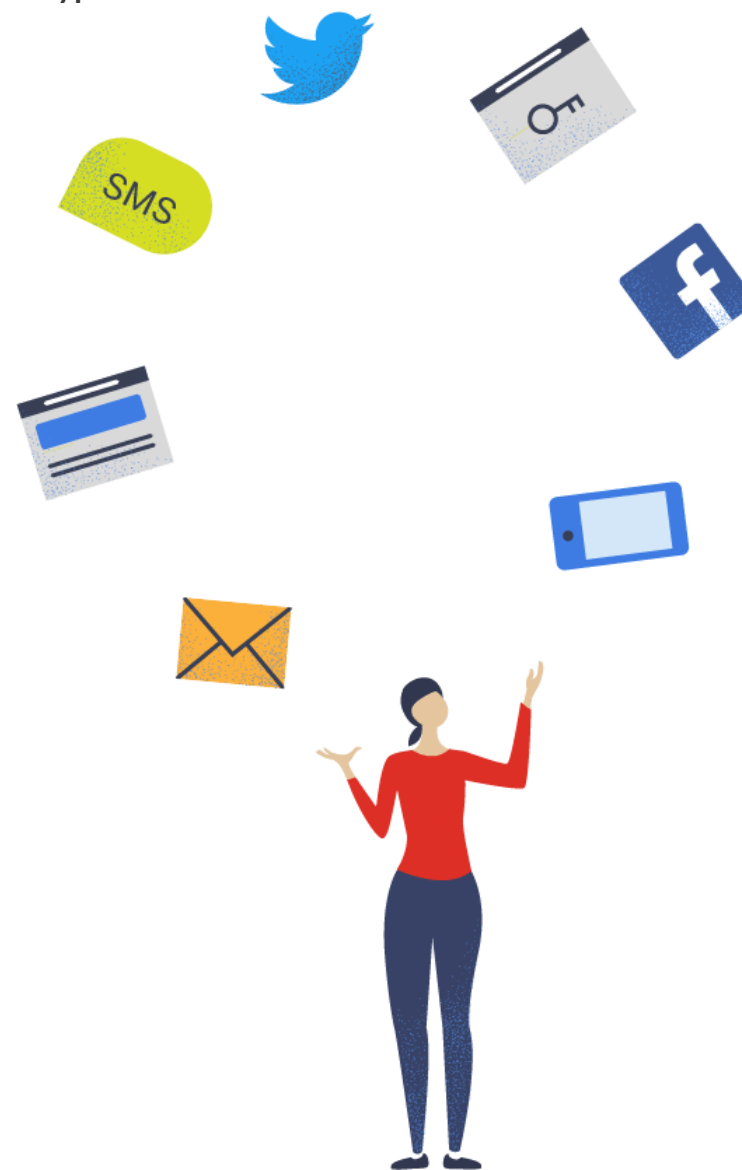
Furthermore, positioning LiveChat in the premium category and developing its market position based on features such as the variety of features and integrations available, the quality of customer service, as well as reliability and data safety instead of price-based competition, makes the company resistant to pressure from popular solutions available free of charge.

The Company is monitoring very closely new announcements of solutions for business in the text-based communications space by corporations such as Apple or Facebook and is aware of such developments from the early, software development stage, or months before they are officially announced. This was the case of Apple, as well as Facebook earlier on.

LiveChat Software believes these upgrades are positive news for the entire industry, thanks to promote of this type of software. Companies that offer their tools in the freemium model go to new groups of customers who have not used such solutions in the past or used their free versions. In this regard, these solutions do not constitute a direct competition for LiveChat, but they introduce new opportunities for integration and for the acquisition of new clients who want to use this type of communication. Thanks to these developments, Facebook Messenger, WhatsApp and now Apple are turning towards new development channels for the LiveChat product.

The Company is developing a business ecosystem around its products in order to be able to better address users' needs. Thanks to these developments, they will be able to communicate with their clients via multiple platforms, not just using their website, but also via text message, Apple products, mobile devices, Facebook Messenger, social media communicators and platforms.

By definition, corporations such as Facebook, Google or Apple will not be competing directly with specialized providers of B2B solutions such as LiveChat Software, Zendesk or LivePerson, which feature integration of multiple platforms and solutions, specialized customer service or access to expert customer service know-how.



Description of the activities of LiveChat Software Group

Information about material transactions with related parties

Agreement with LiveChat, Inc.

LiveChat Software has a contract with LiveChat, Inc., in which the subsidiary has agreed to further resell access to LiveChat system to end users.

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 6 months period ending September 30, 2018, revenue from sales of LiveChat, Inc. totaled PLN 51,988,400 and the total value of expenses invoiced by LiveChat, Inc. was PLN 8,973,638. In the corresponding period of 2017 financial year, these values were respectively PLN 42,573,786 and PLN 7,699,360.

| [PLN] | H1 2018/19 | H1 2017/18 |
|--|------------|------------|
| Sales to LiveChat, Inc. | 51 988 400 | 42 573 786 |
| Cost of services purchased from LiveChat, Inc. | 8 973 638 | 7 699 360 |

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, 2018 to September 30, 2018.

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.

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 the Company's 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.

Information about the employment

At the end of the first half of 2018/19 financial year, the Company collaborated with with 107 persons on a regular basis. The biggest groups include software developers and the customer service department, working in a 24/7 model. The next largest group is the marketing department. The Management Board consists of persons who have spent years working on the LiveChat project.

Description of the activities of 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 Management 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 creates huge growth potential for the entire sector.

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 and new products in the field of customer services, among others BotEngine, KnowledgeBase and chat.io

Acquisitions

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

Building a business ecosystem around products launched on the market

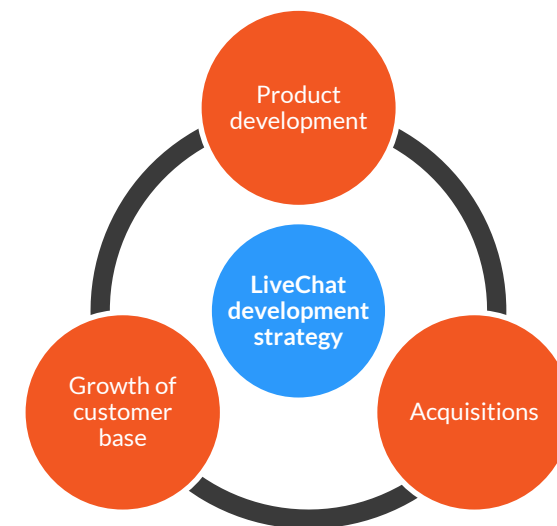
Building a larger communication platform, which brings together the Company's products and other tools in the field of customer service, e-commerce, CRM and marketing automation.

Development of the LiveChat for Developers program, for developers and technology companies, through which the Company provides the product documentation necessary to create new applications based on the LiveChat technology.

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;
- Further development of the affiliate program
- Development of new channels for new users acquisition.



Factors affecting the Company's results

In the longer perspective, Company results will be affected primarily by the situation of the global e-commerce and SaaS market.



Description of the activities of LiveChat Software Group

Growth prospects

Risks and key factors affecting the Group's growth prospects

The Company's growth prospects depend on a number of factors related to the development prospects of the global Internet network, e-commerce sector, Software as a Service segment (SaaS), and in particular the demand for sales support solutions and relations with a live chat customer.

The increasing popularisation and availability of the Internet and the resulting popularity of e-commerce positively affects the needs for live chat solutions. An important element is also the pursuit of LiveChat Software customers of maximising conversions, that is of the situation in which the greater number of visits to their websites lead to an actual transaction. Implementation of a live chat solution clearly contributes to improving conversions. Live chat solutions are very competitive in terms of efficiency and cost as compared to traditional methods of customer contact.

According to observations, traditional methods of exchanging information in the customer-salesman channel as telephone services, website content and e-mail messages are gradually replaced by tools used for direct and immediate communication with the client, including live chat services. They allow you to open a completely new alternative customer service channel to traditional forms, including call-centres.

The application of such a tool significantly enhances the efficiency of people involved in customer service by enabling the simultaneous service of several users.

In addition to changes in the method of communication between the customer and the seller, the natural factor determining the popularity of live chat software is the value of the Internet sales market.

Risks related to the Group's operations

Exchange rate risk

The company is exposed to the risk of exchange rate volatility, in particular the Polish currency in relation to the US dollar (USD). The exchange rate risk results directly from the majority of operating expenses in PLN and from sales on foreign markets, which is carried out in USD.

Exchange rate volatility mainly affects changes in the value of revenue and receivables of the Company in PLN. Therefore, there is a risk of strengthening the Polish currency, which will cause a decrease in the price competitiveness of the Company and a faster growth in sales volume than revenue from export sales expressed in PLN, thus affecting the profitability of sales.

The decrease of the Company's exposure to the exchange rate risk is affected by incurring part of the costs in USD.

As at the date of the report, the Company does not hedge open currency positions, and the Management does not perceive exchange rate risk as a significant threat to the level of realized profitability of operating activities.

Risk related to competition

Due to the fact that LiveChat generates the vast majority of revenue in the United States, the risk from the competitive environment occurs primarily on the said market. The SaaS market in the United States is characterized by dynamic development and a growing level of competitiveness.

There is a risk of the emergence of a more innovative or more cost-effective solution on the market and the risk of significantly higher resources being applied by competitors to promote available solutions or enter the market of entities with access to a wider customer base. There is also a risk that the Company will not be able to respond quickly and effectively to the changing market environment, and consequently the solutions offered may be considered less competitive and the Company may lose its competitive position. Such a situation may have a negative impact on the sale of the Company's products and services and, as a consequence, on the financial performance. LiveChat Software minimizes the above risk by systematically analyzing the competitive environment and consistent implementation of the adopted development strategy based on the competitive advantages possessed and gradually expanded.

Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group's operations

Risk related to product distribution channels and reaching new customers

The Company implements a marketing strategy focused on minimizing the external costs of acquiring new customers. Due to that, the Company has consistently maintained high profitability of its operations. At the same time, the Company remains sensitive to changes in the channels used to reach customers, which in the case of introducing aggressive monetization mechanisms may be used less by the Company to acquire new customers.

In the first months of 2018, the Company experienced a drop in the growth of the number of new customers, which derived from changes in the business model of on-line price comparison websites (e.g. Capterra or GetApp) and higher costs of presence and promotion on such websites. Through this channel of reaching the customer, the Company generated over a dozen percent of new customers. Currently, the Company is carrying out works that will both allow it to build new, low-cost channels to reach customers, as well as is investigating the business effectiveness of using methods associated with higher costs of customer acquisition.

Currently, due to the acquisition of customers through free activities and at the same time related to the long-term building of coverage, relations and image, the Company has no direct control over the number of customers acquired in specific months. The Company effectively uses the available tools and channels of reaching, at the same time expanding new channels, thus minimizing the risk in this area, which in the long-term translates into a consistent growth in the customer base.

Risk related to technical failures

The sale of software requires maintaining the IT infrastructure and using the services of external server solution providers. In connection with the above, the operations of the Company are exposed to software, electronic devices and IT infrastructure failure risks.

In order to minimise the risk of failure in the IT infrastructure for which current operation LiveChat Software is responsible, procedures have been introduced and actions undertaken to ensure archiving and generation of backup copies of most of the data processed by the Company.

Risk related to the occurrence of a breakdown or hacker attack

The Issuer provides its services based on computer software and internet connection. In addition, it uses infrastructure belonging to third parties, for example to store data (hosting).

Such a business model is associated with the risk of failure not only on the part of the Company, but also individual entities performing at least technical roles in the provision of services by the Issuer.

The above risk is limited by the selection of appropriate partners, guaranteeing the appropriate quality of services. In addition, the important factor is the care for the use of appropriate technical measures, their maintenance or replacement.

Moreover, the activity consisting in the exchange of data in the ICT system may become the subject of a hacking attack, which may lead to difficulties or prevent proper provision of the service by the Issuer.

In order to limit the possibility of risk occurrence, the Issuer applies appropriate security tools, cooperates with entities that apply appropriate safeguards, and monitors the functioning of the system.

Risk related to product concentration

LiveChat Software generates almost all revenue from the sale of LiveChat product which is a key element of the Company's business model.

In the event of a significant decline in market demand for live chat products and directly the Company's product, e.g. as a result of a loss of competitive advantage, market failure or other negative external or internal events, the Issuer is exposed to the risk of decreasing revenue.

In order to minimise the above risk, the Issuer conducts advanced work on expanding the scope of current technology applications and extending the product offer and, as a consequence, increasing the diversification of revenue.

Risk of Customer loss

As part of its operations, the Company focuses on providing the highest quality of services, however, due to the possible increase in the competitiveness of the market, the risk of a significant outflow of customers cannot be ruled out. The factor described above may have a material adverse effect on the Issuer's financial position.

Risk related to contracts concluded with Customers

LiveChat Software, operating in the software segment, sells its product mainly through its website. The Customer starts using the services of the Company after accepting the "general conditions", but they are not bound by any fixed-term contract and are not subject to notice periods.

Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group's operations

Reputational risk

The effectiveness of LiveChat Software's operations and the ability to compete on the market is to a large extent related to the good reputation of the Company and the services it offers. The Issuer notices the possibility of appearing negative information about its products, which may have a negative impact on the Group's development by limiting the possibility of acquiring new customers, and may thus affect the decrease in the value of revenue. The company makes efforts to limit the possibility of such situations, mainly through the care for the highest quality of products and systems placed on the market, however, it cannot guarantee full effectiveness of these activities.

The risk related to the public law burdens on the Issuer's operations

The operations of LiveChat Software and the transactions concluded by the Company are subject to numerous public and legal burdens in various jurisdictions, mainly in Poland, the USA and in the EU. These burdens have the nature of taxes, and in foreign trade with countries other than EU states - also duties and similar charges. The results of the Company's operations are therefore to a large extent dependent on the proper implementation of the relevant tax law. Incorrect application of the tax law provisions may involve excessive fiscal burdens or unplanned, adverse consequences in the form of additional interest charges or administrative or criminal sanctions that may be faced by the Issuer in the event of understatement (including through no fault) of levies. The company must also take into account the nuisance related to the procedures for the calculation of the above public fees and controls carried out by authorized bodies.

Trademark risk

The Issuer uses the name "LiveChat" in trade to define the products it offers. There is a risk that competitors may use terms that may be associated with the name used by the Issuer and thus the use of the Issuer's market position to sell competing products.

There is also a risk of products on the market with names similar to the name used by the Issuer, whose quality will be lower than the Issuer's products. In case of mistaking by the target recipient of both products, due to the similarity of names, the Issuer could suffer the reputational damage.

The company registered a word and figurative mark containing the phrase "LiveChat" as a trademark in the USA. The word and figurative mark "LiveChat" was also registered by the Patent Office of the Republic of Poland.

Risk related to the protection of the Group's intellectual property and business secrets

The activities of LiveChat Software and its competitive position depend on ensuring comprehensive protection of the uniqueness of technical solutions of the Company. Within the available legal instruments, the Group undertakes actions to protect the intellectual property of the Company.

Risk related to infringement of a copyright to intellectual property used by the Company.

Infringement of copyright to computer programs may occur as a result of using, within the framework of the offered Internet communication program, entire programs or parts thereof, the rights to which are vested in third parties. The above circumstance may occur both as a result of the original unauthorized use (also unconscious) of programs subject to legal protection as well as due to the subsequent expiry of the right (e.g. due to the expiration or termination of the license). The above comments also apply to legally protected databases used in programming.

It should be noted that the above risk is not a risk characteristic exclusively for the Issuer, but also applies to a wide range of entities operating in the same industry as the Issuer.

Risk related to the operation of entities using patents to enforce compensation (patent trolls)

The Issuer operates on the market of innovative technologies and IT solutions. The above market has become the object of the so-called "Patent trolls" - entities acquiring patents solely for the purpose of claiming compensation for their alleged or actual violation. These entities do not use patents to protect their products, which are usually missing, thereby using the patent system contrary to its intended purpose, though within the limits of the law. The above situation is favoured by the specificity of the US patent law, which is willing to grant protection also to solutions of a small degree of innovation, which could not be protected under the European legal system.

Therefore, there is a risk of raising claims against the Issuer in relation to the alleged patent infringement. The above may give rise to possible defence costs or expenditures related to the settlement or payment of the compensation demanded by the Company. It should be noted that the above risk is not a risk characteristic only for the Issuer, but also applies to a wide range of entities operating in the field of new technologies.

Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group's operations

Risk associated with the creation of intellectual property

There is a risk related to the legal form on the basis of which the team members provide services to the Company in the area related to the creation of intellectual property. At the moment of preparing the Report, none of the team members provides services to the Issuer on the basis of an employment contract. This means that the effects of the work of these people are not subject to the rule resulting from the provisions of copyright law that the employer, whose employee created the work as a result of the performance of duties under the contract, acquires copyright property rights at the time of accepting the work, and that property rights to the computer programme created by the employee as a result of the performance of duties under the employment contract are attributable to the employer. It means that the transfer of proprietary copyrights to works (including computer programmes) created by members of the Company's team takes place subject to the general principles resulting from the copyright law requiring the conclusion of a relevant agreement regarding the transfer of rights. At the same time, the provisions of the copyright law exclude the conclusion of the contract for all works or all works of a specific type of the same creator to be developed in the future. However, the doctrine of copyright law and jurisdiction permits the transfer of rights to works to be created in the future, as long as it does not violate the prohibition of contracting all works or all works of a certain type. In practice, therefore, in relation to cooperation with persons creating works subject to copyright, there is thus a problem of such determination of the designation of a future work, so that the contract in this respect is effective. Otherwise, if a member of the Company's team creates a work needed by the Issuer in its activity, for which work no contract has been previously concluded, it will be necessary to conclude an individual contract with the person, which also depends on the will of that person, and thus may give rise to a potential dispute on the basis of copyright for a given work.

Risks of US law and proceedings in the US and the costs of these proceedings due to the concentration of doing business in the US

The Issuer earns revenue from sales performed by a subsidiary company LiveChat, Inc. in USA. The US law to a large extent does not have the nature of a statutory law, especially in the scope of pursuing claims arising from contracts and torts. In connection with the above, lodging against the Issuer, in particular LiveChat, Inc., claims for example related to the malfunctioning of LiveChat system, cannot be completely ruled out. In the event of losing such a case, the Issuer may be exposed to negative financial consequences. In addition, in the light of laws securing economic turnover in the US, it cannot be ruled out that an American entity would directly sue also the Issuer with recognition of the jurisdiction of the US courts and US law. Notwithstanding the above, conducting such proceedings may involve significant costs for the Issuer.

In order to prevent such risks, the Issuer provides services on the terms presented on its website, which exclude its liability for disturbances in the use of the LiveChat system. However, there is a risk that such exclusions may prove ineffective, in whole or in part.

Risk of limitation or exclusion of contractors' liability from material contracts

A subsidiary of the Issuer, LiveChat, Inc., is a party to contracts (concluded through Internet procedures) for hosting, settlements, payment gateways, etc. Providers of these services in the terms of providing services available on their websites exclude their liability for irregularities in operation. Therefore, in the event of a breakdown or other disturbance, there is a risk that the Issuer will not be able to claim compensation. However, the Issuer would like to indicate that services of this type are widely available and it is easy to migrate to another service provider.

In addition, the Issuer diversifies service providers, especially in the field of data protection.

Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group's operations

Tax risk related to transfer prices, especially under the US law

The Issuer's revenue come from sales to the subsidiary, LiveChat, Inc., which further sells the LiveChat system to end customers. The adopted model of cooperation foresees that revenue of LiveChat, Inc. are taxed in the US and the Issuer's revenue in Poland. This model is based on the current agreement between Poland and the USA on the avoidance of double taxation. However, it cannot be ruled out that the US tax authorities will treat this issue differently. On the assumption that the Issuer owns a facility, in tax terms, in the US in its extreme form the entirety of the Issuer's revenue would be taxed in the USA. However, it is not a foregone conclusion that the total tax burden due to taxation of the Issuer's revenue in the USA would be significantly higher than currently. At the same time, in the case of unfavourable decisions of tax authorities, it is possible to shape the sales model differently, in the most appropriate way also in the context of taxation.

Financial instruments in the area of price and credit risk, significant distortions of cash flows and loss of financial liquidity to which the entity is exposed

The company does not use financial instruments to limit the above risks.

The adopted financial risk management objectives and methods, including the methods of securing significant types of planned transactions for which hedge accounting is applied.

The company does not apply hedge accounting.

Risk related to the macroeconomic situation.

The operations of the Company depend on the macroeconomic situation prevailing in the markets in which services are provided or will be provided, primarily in the United States. The volume of sales and, indirectly, the Company's financial results depend, inter alia, on the rate of economic growth, consumption, fiscal and monetary policy, inflation level as well as the level of expenditures on IT solutions in those countries.

In order to minimize the risk of adverse impact of the above-mentioned factors on the business conducted, the Company undertakes actions to increase its competitiveness through the technological development of the product and services offered.

Risk related to the development of the industry

The global SaaS market is at the stage of rapid development, which is associated with dynamic changes in services and products available on the market, as well as high volatility of industry standards.

Therefore, there is a risk that the Company will not be able to adapt to rapid market changes, which may result in a deterioration of its competitive position and financial situation.

Due to the external nature of the phenomenon described, the Company is not able to actively counteract the trends prevailing in the SaaS industry. At the same time LiveChat can effectively adapt its business model to the trends in the industry. The company conducts ongoing monitoring and analysis of operating markets, adjusting the offer and development strategy to the expectations of users of technologies and discovered market niches, simultaneously developing the developed product.

Financial situation of LiveChat Software Group

Presentation of consolidated results

Income statement

| [PLN] | H1 2018/19 | H1 2017/18 | Change | Q2 2018/19 | Q2 2017/18 | Change |
|---------------------------------------|-------------------|-------------------|--------------|-------------------|-------------------|--------------|
| Sales | 52 095 771 | 43 613 845 | 19.4% | 26 580 819 | 22 028 898 | 20.7% |
| Costs of goods sold | 8 426 361 | 7 113 894 | 18.4% | 4 419 096 | 3 836 429 | 15.2% |
| Gross profit (loss) | 43 669 409 | 36 499 951 | 19.6% | 22 161 722 | 18 192 469 | 21.8% |
| Cost of sales | 4 350 508 | 3 556 008 | 22.3% | 2 405 148 | 1 677 161 | 43.4% |
| General management and administration | 4 278 269 | 2 971 436 | 44.0% | 2 329 892 | 1 562 852 | 49.1% |
| Profit (loss) on sales | 35 040 633 | 29 972 506 | 16.9% | 17 426 683 | 14 952 456 | 16.5% |
| Other operating income | 6 001 | 6 000 | 0.0% | 3 000 | 3 000 | 0.0% |
| Other operating expenses | 4 578 | 3 223 | 42.0% | 3 131 | 1 619 | 93.4% |
| Operating profit (loss) | 35 042 055 | 29 975 283 | 16.9% | 17 426 551 | 14 953 836 | 16.5% |
| Financial income | 84 631 | 59 939 | 41.2% | 34 768 | 33 234 | 4.6% |
| Financial expenses | 79 | 1 355 920 | -100.0% | 5 | 75 687 | -100.0% |
| Profit (loss) before tax | 35 126 607 | 28 679 302 | 22.5% | 17 461 314 | 14 911 382 | 17.1% |
| Income tax | 6 798 217 | 5 583 326 | 21.8% | 3 359 194 | 2 888 982 | 16.3% |
| Net profit (loss) | 28 328 390 | 23 095 976 | 22.7% | 14 102 120 | 12 022 400 | 17.3% |

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 first half of 2018/19 financial year, the number of clients rose by 1,333. At the end of the September 2018, the number of client totaled 25,398 vs. 21,937 the year before, an increase by 15.8% yoy.

US dollar exchange rate also has a material impact on the results, which in the reporting period amounted to an average of 3.64 USD / PLN, compared to 3.73 USD / PLN in the corresponding period of the previous year. Virtually all of the Company's sales are denominated in US dollars, while most of the costs are realized in PLN.

The increase in the cost of general management and administration is related to the increase in the scale of the Group's operations, including increasing the team in connection with the implementation of new projects. Despite the rapid increase in the scale of its business, the Group is working to maintain a high degree of cost discipline.

Financial situation of LiveChat Software Group

Presentation of consolidated results

Balance sheet - assets

| [PLN] | September 30, 2018 | March 31, 2018 | Change |
|---|--------------------|-------------------|---------------|
| Fixed assets | 15 141 073 | 11 438 626 | 32.4% |
| Fixed real assets | 1 228 279 | 1 230 790 | -0.2% |
| Intangible and legal assets | 9 661 468 | 8 462 892 | 14.2% |
| Long-term receivables | 167 690 | 187 690 | -10.7% |
| Deferred income tax assets | 386 467 | 313 937 | 23.1% |
| Long-term prepayments | 3 697 169 | 1 243 318 | 197.4% |
| Working capital | 28 315 669 | 37 204 881 | -23.9% |
| Inventories | 0 | 0 | - |
| Receivables for goods and services sold | 1 586 099 | 577 720 | 174.5% |
| Other receivables | 6 826 259 | 6 334 169 | 7.8% |
| Cash and cash equivalents | 19 803 663 | 30 133 807 | -34.3% |
| Short-term prepayments | 99 648 | 159 186 | -37.4% |
| Total assets | 43 456 742 | 48 643 508 | -10.7% |

Liquid assets predominate in the structure of company's assets. Liquidity ratios continue to stay at very high levels, as presented in the table on page 27.

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

Financial situation of LiveChat Software Group

Presentation of consolidated results

Balance sheet - liabilities

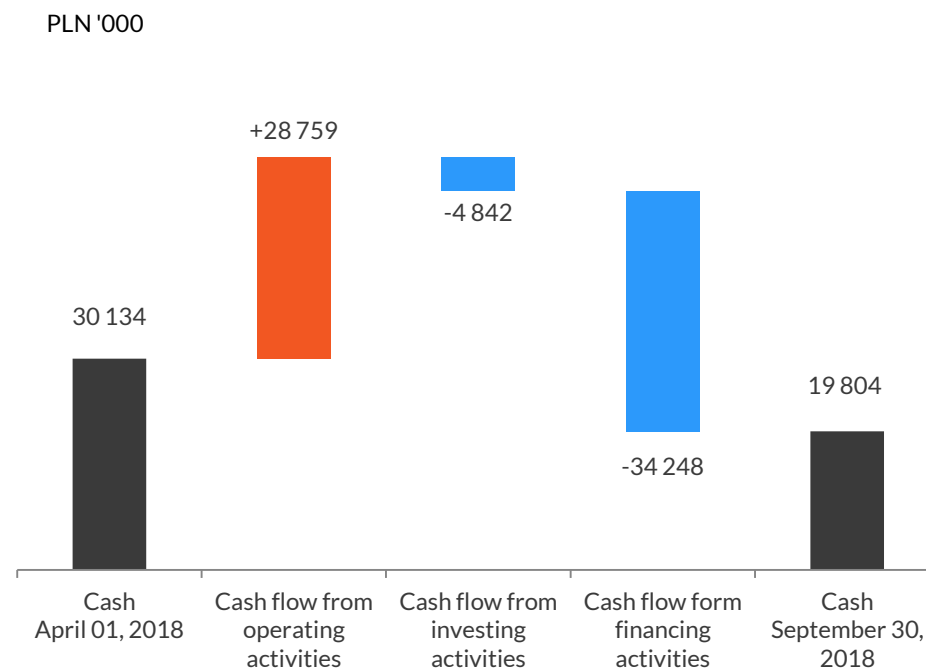
| [PLN] | September 30, 2018 | March 31, 2018 | Change |
|--|--------------------|-------------------|---------------|
| Own equity | 39 306 035 | 45 233 913 | -13.1% |
| Initial equity | 515 000 | 515 000 | - |
| Supplementary capital | 9 806 990 | 7 311 156 | 34.1% |
| FX differences | -81 983 | -74 882 | 9.5% |
| Advance payment for a dividend | 0 | -11 330 000 | -100.0% |
| Unallocated equity from the previous years | 737 638 | 507 513 | 45.3% |
| Net profit (loss) for the fiscal year | 28 328 390 | 48 305 126 | -41.4% |
| Liabilities and provisions | 4 150 707 | 3 409 595 | 21.7% |
| Long-term liabilities | 0 | 0 | - |
| Short-term liabilities | 4 150 707 | 3 409 595 | 21.7% |
| Trade payables | 3 450 057 | 2 807 249 | 22.9% |
| Current income tax | 695 664 | 602 346 | 15.5% |
| Other payables | 4 986 | 0 | - |
| Total liabilities | 43 456 742 | 48 643 508 | -10.7% |

Financial situation of LiveChat Software Group

Presentation of consolidated results

Cash position

| [PLN] | H1 2018/19 | H1 2017/18 | Change |
|---|--------------------|--------------------|---------------|
| Gross profit (loss) | 35 126 607 | 28 679 302 | 22.5% |
| Total adjustments, including: | -6 367 192 | -6 325 294 | 0.7% |
| <i>Depreciation and amortization</i> | <i>1 653 551</i> | <i>1 140 589</i> | <i>45.0%</i> |
| <i>Interest and share in profits (dividends)</i> | <i>-84 552</i> | <i>-59 691</i> | <i>41.6%</i> |
| <i>Change in working capital</i> | <i>-793 137</i> | <i>-1 194 192</i> | <i>-33.6%</i> |
| <i>Income tax paid</i> | <i>-7 143 054</i> | <i>-6 212 000</i> | <i>15.0%</i> |
| Cash flow from operating activities | 28 759 415 | 22 354 007 | 28.7% |
| Interest received | -4 926 611 | -2 338 210 | 110.7% |
| Investments in intangibles and in real fixed assets | 84 552 | 59 691 | 41.6% |
| Cash flow from investing activities | -4 842 059 | -2 278 519 | 112.5% |
| Dividends paid | -34 247 500 | -36 307 500 | -5.7% |
| Net cash flow from financing activities | -34 247 500 | -36 307 500 | -5.7% |
| Total net cash flow | -10 330 144 | -16 232 012 | -36.4% |
| Cash at the beginning of the period | 30 133 807 | 34 749 564 | -13.3% |
| Cash at the end of the period | 19 803 663 | 18 517 552 | 6.9% |



Financial situation of 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.

Group's financial projection

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

Factors that may affect the financial performance in subsequent periods

The most important drivers affecting the financial performance of LiveChat Software Group:

- Number of customers using LiveChat solution, subscription plans selected by them and the number of positions purchased.
- USDPLN rate - the Group generates revenue in the US dollar, at the same time incurs operating expenses in both the US dollar and Polish Zloty.
- The development of the economic situation on the global market, in particular on the American market.
- Situation on the global e-commerce market.
- The demand and the degree of use by companies of live chat solutions.
- Actions of companies offering competitive solutions.
- Changes in the functioning and cyclicity of customer acquisition channels.
- Introduction of new products to the market, possible success of their commercialization and the pace of acquiring new clients for these solutions.

Basic ratios*

Basic financial ratios of the Group in the first half of 2018/2019 financial year were as follows:

Gross profit margin has reached 83.8%, EBITDA margin 70.4%, EBIT margin 67.3% and net margin 54.4%.

Return On Equity has reached 136.2% while Return On Assets totaled 123.2%.

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.

| | H1 2018/19 | H1 2017/18 |
|---------------------|------------|------------|
| Gross profit margin | 83.8% | 83.7% |
| EBITDA | 70.4% | 71.3% |
| EBIT | 67.3% | 68.7% |
| Net margin | 54.4% | 53.0% |
| ROE | 136.2% | 150.3% |
| ROA | 123.2% | 137.9% |
| Current ratio | 6.8 | 8.9 |
| Quick ratio | 6.8 | 8.9 |
| Cash ratio | 4.8 | 6.6 |

* Definitions of these ratios are found on page 37

Financial situation of LiveChat Software Group

Presentation of separated results

Income statement

| [PLN] | H1 2018/19 | H1 2017/18 | Change |
|---------------------------------------|----------------------|----------------------|--------------|
| Sales | 52 095 770.81 | 43 613 844.69 | 19.4% |
| Costs of goods sold | 8 804 415.35 | 6 880 212.26 | 28.0% |
| Gross profit (loss) | 43 291 355.46 | 36 733 632.43 | 17.9% |
| Cost of sales | 4 447 712.57 | 3 556 008.25 | 25.1% |
| General management and administration | 4 299 473.30 | 2 971 436.31 | 44.7% |
| Profit (loss) on sales | 34 544 169.59 | 30 206 187.87 | 14.4% |
| Other operating income | 6 000.72 | 6 000.00 | 0.0% |
| Other operating expenses | 4 578.08 | 3 223.05 | 42.0% |
| Operating profit (loss) | 34 545 592.23 | 30 208 964.82 | 14.4% |
| Financial income | 462 684.62 | 59 938.51 | 671.9% |
| Financial expenses | 78.86 | 1 704 292.51 | -100.0% |
| Profit (loss) before tax | 35 008 197.99 | 28 564 610.82 | 22.6% |
| Income tax | 6 792 950.09 | 5 583 325.64 | 21.7% |
| Net profit (loss) | 28 215 247.90 | 22 981 285.18 | 22.8% |

Financial situation of LiveChat Software Group

Presentation of separated results

Balance sheet - assets

| [PLN] | September 30, 2018 | March 31, 2017 | Change |
|-----------------------------|----------------------|----------------------|---------------|
| Fixed assets | 15 142 728.98 | 11 440 282.75 | 32.4% |
| Intangible and legal assets | 9 661 468.38 | 8 462 891.50 | 14.2% |
| Fixed real assets | 1 228 278.66 | 1 230 790.14 | -0.2% |
| Long-term receivables | 167 690.00 | 187 690.00 | -10.7% |
| Deferred income tax assets | 1 656.46 | 1 656.46 | 0.0% |
| Long-term prepayments | 4 083 635.48 | 1 557 254.65 | 162.2% |
| Working capital | 27 409 221.48 | 36 493 657.40 | -24.9% |
| Inventories | 96 427.75 | 84 902.34 | 13.6% |
| Receivables | 13 319 000.98 | 7 623 517.71 | 74.7% |
| Short-term investments | 13 894 144.55 | 28 626 051.09 | -51.5% |
| Cash and cash equivalents | 13 894 144.55 | 28 626 051.09 | -51.5% |
| Short-term prepayments | 99 648.20 | 159 186.26 | -37.4% |
| Total assets | 42 551 950.46 | 47 933 940.15 | -11.2% |

Financial situation of LiveChat Software Group

Presentation of separated results

Balance sheet - liabilities

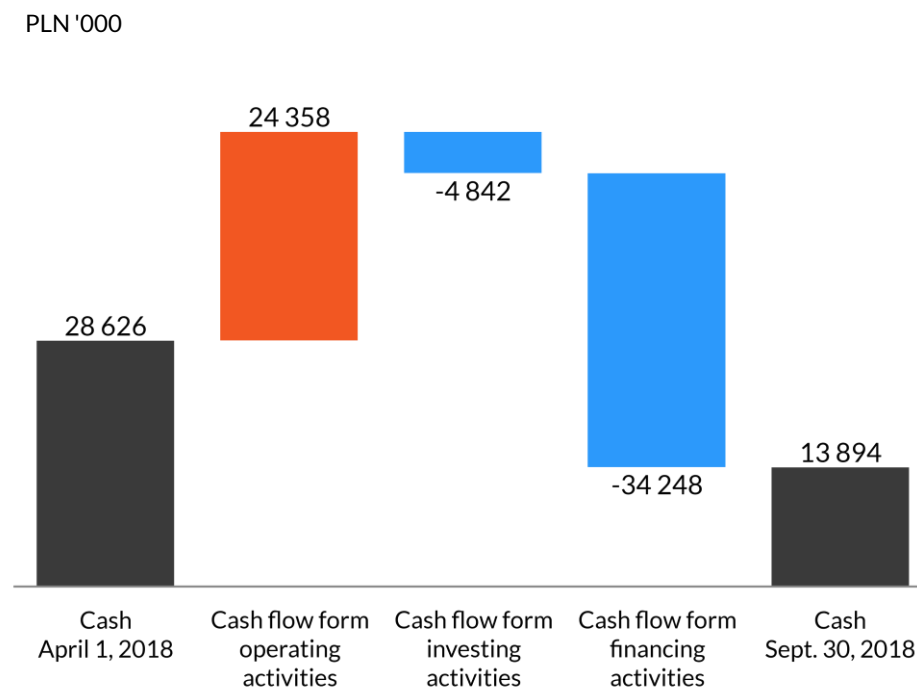
| [PLN] | September, 2018 | March 31, 2017 | Change |
|--|----------------------|----------------------|---------------|
| Own equity | 38 537 237.86 | 44 569 489.96 | -13.5% |
| Initial equity | 515 000.00 | 515 000.00 | 0.0% |
| Supplementary capital | 9 806 989.96 | 7 311 156.47 | 34.1% |
| Unallocated equity from the previous years | 0.00 | 0.00 | - |
| Net profit (loss) for the fiscal year | 28 215 247.90 | 48 073 333.49 | -41.3% |
| Write-offs from net profit during the financial year | 0.00 | -11 330 000.00 | -100.0% |
| Liabilities and provisions | 4 014 712.60 | 3 364 450.19 | 19.3% |
| Long-term liabilities | 0.00 | 0.00 | - |
| Short-term liabilities | 2 063 450.72 | 1 712 150.20 | 20.5% |
| Trade payables | 1 362 800.84 | 1 109 804.34 | 22.8% |
| Liabilities due to taxes, duties, insurance and other benefits | 695 663.66 | 602 345.86 | 15.5% |
| Other payables | 4 986.22 | 0.00 | - |
| Rozliczenia Międzyokresowe | 1 951 261.88 | 1 652 299.99 | 18.1% |
| Total liabilities | 42 551 950.46 | 47 933 940.15 | -11.2% |

Financial situation of LiveChat Software Group

Presentation of separated results

Cash position

| [PLN] | H1 2018/19 | H1 2017/18 | Zmiana |
|---|-----------------------|-----------------------|---------------|
| Net profit (loss) | 28 215 247.90 | 22 981 285.18 | 22.8% |
| Total adjustments, including: | -3 857 595.68 | -147 547.09 | 2 514.5% |
| <i>Depreciation and amortization</i> | 1 653 550.61 | 1 140 587.20 | 45.0% |
| <i>Interest and share in profits (dividends)</i> | -84 551.82 | -59 691.11 | 41.6% |
| <i>Change in inventories</i> | -11 525.41 | -20 778.59 | -44.5% |
| <i>Change in receivables</i> | -6 124 869.53 | -1 148 532.79 | 433.3% |
| <i>Change in short-term liabilities, except for loans and credits</i> | 351 300.52 | -35 528.73 | -1 088.8% |
| <i>Change in prepayments</i> | 358 499.95 | -23 603.07 | -1 618.9% |
| Cash flow from operating activities | 24 357 652.22 | 22 833 738.09 | 6.7% |
| Interest received | 84 551.82 | 59 691.11 | 41.6% |
| Investments in intangibles and in real fixed assets | 4 926 610.58 | 2 338 210.48 | 110.7% |
| Cash flow from investing activities | -4 842 058.76 | -2 278 519.37 | 112.5% |
| Dividends paid | 34 247 500.00 | 36 307 500.00 | -5.7% |
| Net cash flow from financing activities | -34 247 500.00 | -36 307 500.00 | -5.7% |
| Total net cash flow | -14 731 906.54 | -15 752 281.28 | -6.5% |
| Cash at the beginning of the period | 28 626 051.09 | 33 563 749.39 | -14.7% |
| Cash at the end of the period | 13 894 144.55 | 17 811 468.11 | -22.0% |



Information about the shares and shareholders

Structure of the initial equity

As of the date of the 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. The nominal value of each share is PLN 0.02 (two grosze).

Changes in the shareholder structure

During the first half of 2018/19, the following changes occurred in the structure of significant shareholders of the Company:

In connection with the transaction of purchase of the Company's shares concluded on 7 September 2018, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK increased its share in the total number of votes in the Company to over 5%.

After settlement of the transaction, as at 11 September 2018, Aviva OFE Aviva BZ WBK held 1,411,116 shares of the Company entitling to 1,411,116 votes at the General Meeting, which constitutes 5.48% of the total number of votes.

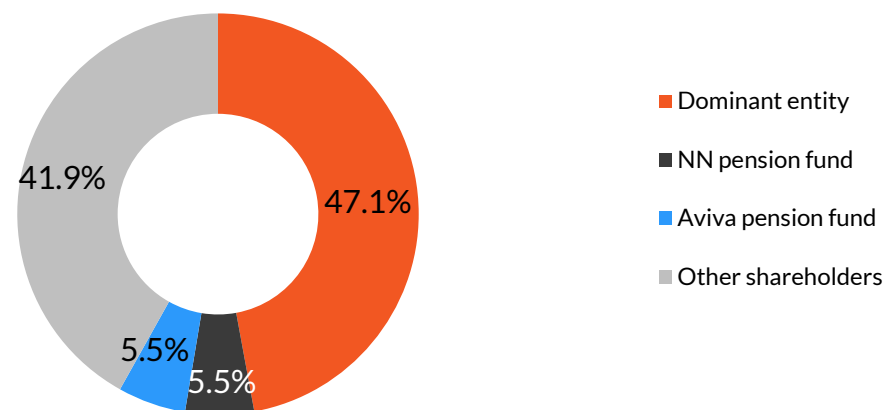
Shareholder structure

| Shareholder | Number of votes | Voting state |
|---|-------------------|----------------|
| Nationale-Nederlanden PTE (NN pension fund) | 1 425 000 | 5.53% |
| Aviva OFE Aviva BZ WBK (Aviva pension fund) | 1 411 167 | 5.48% |
| Shareholder agreement – Dominant entity, including shareholders over 5% stake: | 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 | 10 784 551 | 41.88% |
| TOTAL | 25 750 000 | 100.00% |

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

Shareholder agreement – Dominant entity consist of the following persons: Mariusz Ciepły, Urszula Jarzębowska, Jakub Sitarz, Maciej Jarzębowski, Szymon Klimczak, Krzysztof Górski.

As at September 30, 2018 and November 27, 2018



Governing bodies

Composition of the Company's Management Board

As at the date of the report, the Management Board of LiveChat Software S.A. consisted of two persons and included the following individuals:

| First and last name | Role |
|----------------------|--------------|
| Mariusz Cieply | CEO |
| Urszula Jarzembowska | Board Member |

Composition of the Management Board has not changed in the course of the first half of 2018/19 fiscal year.

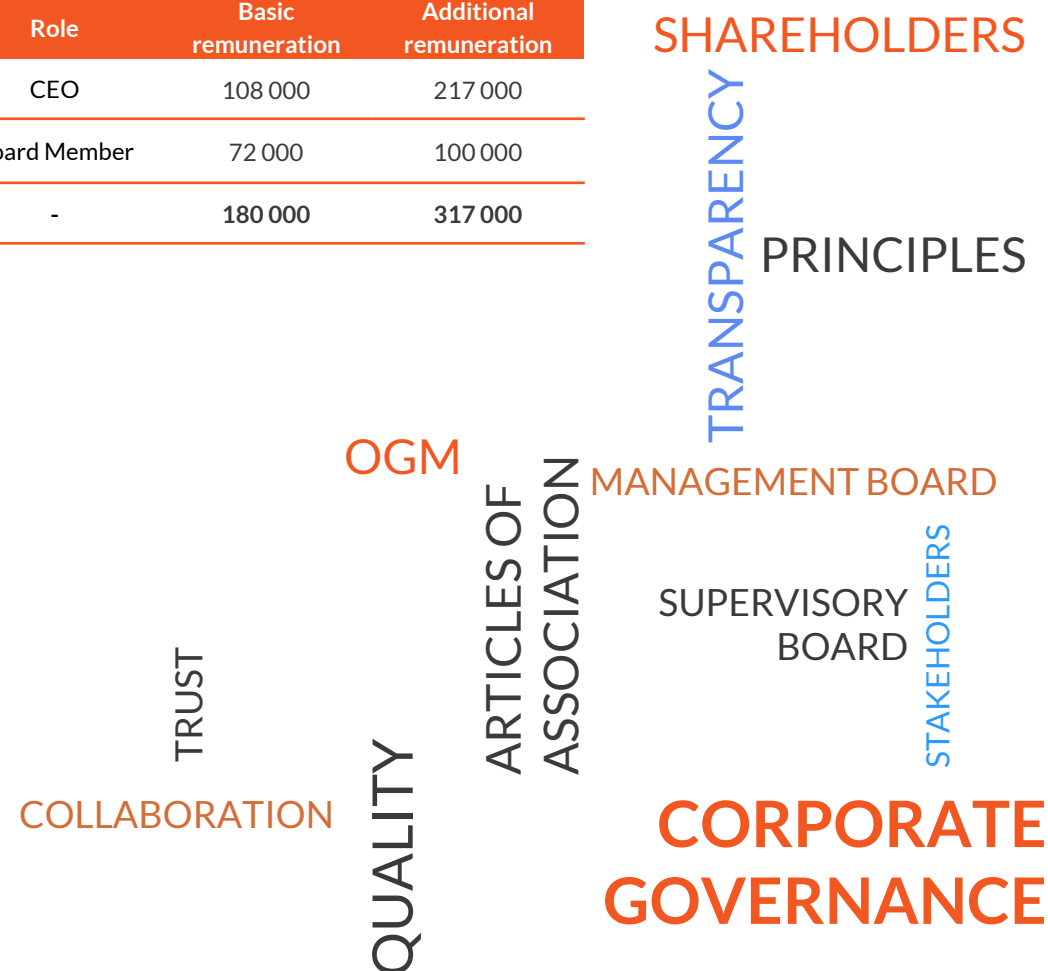
Mariusz Cieply is one of the founders and core shareholders of LiveChat Software. He has been serving as the Company's CEO since 2010. Mr. Cieply has a degree in IT engineering, specialization in the engineering of IT systems, having graduated from the Faculty of Electronics at the Technical University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

Urszula Jarzembowska has been serving as a Board Member at LiveChat Software S.A. since 2010. She has been working at the Company since 2002. Ms. Jarzembowska has a master's degree from the Wroclaw University of Economics, 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 Wroclaw 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.

Remuneration

Remuneration of members of the Management Board of LiveChat Software S.A. collected in the period between April 1, 2018 and September 30, 2018, also includes the bonus granted by the Supervisory Board on the resolution of October 26, 2018 for the work of the Management Board and the Company's results in 2017/18 financial year.

| First and last name | Role | Basic remuneration | Additional remuneration |
|----------------------|--------------|--------------------|-------------------------|
| Mariusz Cieply | CEO | 108 000 | 217 000 |
| Urszula Jarzembowska | Board Member | 72 000 | 100 000 |
| TOTAL | - | 180 000 | 317 000 |



Governing bodies

Membership of the Supervisory Board

During the first half of 2018/19 financial year, there were no changes in the composition of the Supervisory Board. As at September 30, 2018 the composition of 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 |
| 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 graduated from Trade School of Gastronomy in Wrocław. Between 1999 and 2001 he served as the CEO of Bankier.pl, between 2001 and 2006 he was the CEO of Internet Works. He served as the CEO of LiveChat Software S.A. until 2010.

Jakub Sitarz has a master's degree, having graduated from IT studies at the Faculty of Electronics at the Technical University in Wrocław. He serves as key technology adviser.

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

Michał Markowski is a graduate of the Wrocław University of Technology where he graduated in parallel from IT studies and financial management. At Wrocław University he also obtained a PhD in Computer Science. He obtained international qualifications in the field of finance - ACCA. He started his professional career in 2003, running his own business and creating his own school management software. Between 2007 and 2010 he was responsible in the company InsERT for the creation of financial and personnel software for small and medium enterprises. In Deloitte, between 2010 and 2012 he managed projects in the field of financial modeling and due diligence. Then from May 2012, he advised the Minister of the Treasury, among others on the project of consolidation of the chemical sector (establishment of Grupa Azoty) and created the Polish Investments Program (currently Polish Development Fund). In 2014-2016 he was responsible for the strategy of the Warsaw Stock Exchange. From October 2016, he has been conducting M&A transactions at ProService Finteco. Michał Markowski meets the criteria of an independent Member of the Supervisory Board.

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 working in the stock market branch 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 he has been CEO and the main shareholder of EFM S.A. At the same time Mańdziak manages a consulting firm Arandela Marcin Mandziak. He is a Member of the Supervisory Board at Venture Incubator SA. Marcin Mańdziak meets the criteria of an independent Member of the Supervisory Board.

On 16 October 2018, the Extraordinary General Meeting of the Company appointed members of the Supervisory Board for the new term. The first meeting at which members of the Supervisory Board elected the Chairman and Deputy Chairman of the Supervisory Board was held on 26 October 2018. The composition of the Supervisory Board as at the date of the report is as follows:

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

Shares held by members of Management and Supervisory bodies

The table below presents the number of shares held by members of Management 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 |

Statements made by the Management Board

Wrocław, November 26, 2018

The consolidated financial report of LiveChat Software Capital Group for the period of 6 months ended September 30, 2018, has been approved for publication by the Management Board on November 26, 2018.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Wrocław, November 26, 2018

The individual financial report of LiveChat Software for the period of 6 months ended September 30, 2018, has been approved for publication by the Management Board on November 26, 2018.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Statements made by the Management Board

Statements on the reliability of preparation of the financial statements

Wrocław, November 26, 2018

Statement made by the Management Board on the reliability of preparation of the annual unconsolidated financial statements of LiveChat Software for the period of 6 months ended September 30, 2018

The Management Board of LiveChat Software S.A. hereby declares that, to the best of its knowledge, the unconsolidated financial statements of LiveChat Software S.A. for the period of 6 months ended September 30, 2018 and comparable data contained therein have been prepared in compliance with the applicable accounting standards.

Furthermore, the Management Board declares that the presented data give a true, reliable and fair view of the Company's assets, financial position and financial performance. The report on operations provides a fair description of the development, achievements and economic position of the Company, inclusive of major risks and threats to its operations.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Wrocław, November 26, 2018

Statement made by the Management Board on the reliability of preparation of the consolidated financial statements of LiveChat Software Capital Group for the period of 6 months ended September 30, 2018

The Management Board of LiveChat Software S.A. hereby declares that, to the best of its knowledge, the consolidated financial statements of LiveChat Software Capital Group for the period of 6 months ended September 30, 2018 and comparable data contained therein have been prepared in compliance with the applicable accounting standards.

Furthermore, the Management Board declares that the presented data give a true, reliable and fair view of the Group's assets, financial position and financial performance. The report on operations provides a fair description of the development, achievements and economic position of the Group, inclusive of major risks and threats to its operations.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Glossary

Financial ratios

| 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