Report of the Management Board on the operations of LiveChat Software S.A. and LiveChat Software Capital Group for the period of 12 months ended March 31, 2018

Date of approval: June 18, 2018
Date of release: June 19, 2018
Management report on the activities of LiveChat Software Capital Group

In 2017 fiscal year LiveChat Software Capital Group reported an increase of over 17% in consolidated sales to PLN 89.4 million, with a net profit of PLN 48.3 million, i.e. almost 13% more than a year earlier. Unconsolidated net profit of LiveChat Software S.A. totaled PLN 48.1 million, with revenues of PLN 89.4 million.

At the end of the fiscal year, LiveChat was used by over 24 thou. clients - companies, public institutions and universities. During the year, the number of users increased by approximately 25%, which had a direct impact on the increase in revenues. The difference between the growth dynamics of the user base and the generated revenues results from, among others, the difference in the USDPLN rate, which is key for the Group's results.

The company provides its solution in the SaaS (Software as a Service) model, which allows it to offer its services on the global market. As of June 1, 2018, the number of clients exceeded 24,600, including companies from approximately 150 countries worldwide. LiveChat Software's business model also allows it to generate very strong margins, as a result of low customer acquisition and maintenance expenses combined with scalability of the business. EBITDA margin was 71.4% and net margin was 54.0%. This translates into very high cash flows. In the past fiscal year the Group's operating cash flow totaled PLN 48.2 million. At the same time, the Group reported negative cash flow from financing activities totaling PLN -47.6 million as a result of the PLN 36.3 million dividend payment for the previous fiscal year and an advance dividend for the fiscal year ending March 31, 2018, totaling PLN 11.3 million. As of March 31, 2018, Livechat Software S.A. held cash totaling PLN 30.1 million.
Operating summary
Letter to shareholders

Dear Shareholders,

It is my great pleasure to present to you the report summarising the most significant events for our Company in the past financial year.

We have had a very successful time. We have achieved one of our most important business goals. LiveChat, our flagship product had 20,000 users in May and now – as of the publication date of this report – more than 24,500 companies and institutions worldwide use LiveChat.

As a team we assume responsibility for providing technology facilitating communication between companies and consumers. According to this notion we develop not only the LiveChat product, but introduce new solutions to the market, whose ultimate goal is to support customer service and improve its effectiveness.

In the past year we implemented a tool for creating chatbots – BotEngine, a solution for creating knowledge bases – KnowledgeBase and chat.io – a live chat application characterised by continuous user chats. Detailed information concerning those products are included further in the report.

We broaden the scope of our services dynamically. It is our goal for the future to fulfill all needs of a company as regards customer communication. At the end of 2017 we presented our strategy for development and creation of new products. For a considerable time we have been building a large communication platform around our solutions. We want LiveChat to become a business “control centre” through which companies will be able to manage the entirety of contacts with their customers.

The past year 2017/2018 was also significant for our team. In March we relocated to a new spacious office. The space we work in now is more comfortable and gives the opportunity to enlarging the team. LiveChat is growing. At the end of March 2017 our Company’s team consisted of 74 people and now we have almost 100 talented people committed to their jobs onboard.

Our investor successes surely include the Company’s shares becoming a part of mWIG40. The transfer of LiveChat Software shares to a mid-cap index is a result of both capitalisation and liquidity of shares. This way we have become more visible for domestic and international investors.

In the reported period LiveChat Software Group earned PLN 89.4 million of consolidated revenues and PLN 48.3 million of consolidated net profit. The unconsolidated revenues of LiveChat Software S.A. amounted to PLN 89.4 million and net profit – PLN 48.1 million.

Although we had a great year we do not relax our expectations, but believe that the best is yet to come. We work with full commitment to achieve the number of 30,000 users of our product.

At the same time we would like to thank you for your trust in our Company. You are the reason we can achieve our objectives, establish new ones, even more ambitious and develop the Company on international markets.

I would like to thank our whole team for their efforts and hard work.

And I would like to encourage you to read the whole report and contact us, in particular via LiveChat on our investor relations page.

Kind regards,

Mariusz Cieply
Operating summary

Selected consolidated financial data

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>2017/18</th>
<th>2016/17</th>
<th>Zmiana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales of products, goods and materials</td>
<td>89,425,925</td>
<td>76,254,434</td>
<td>+ 17.3%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>63,830,968</td>
<td>55,042,772</td>
<td>+ 16.0%</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>61,361,718</td>
<td>53,349,572</td>
<td>+ 15.0%</td>
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<tr>
<td>Gross profit (loss)</td>
<td>59,979,636</td>
<td>53,468,384</td>
<td>+ 12.2%</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>48,305,126</td>
<td>42,916,950</td>
<td>+ 12.6%</td>
</tr>
</tbody>
</table>

Net cash flow

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>Q4 2017/18</th>
<th>Q4 2016/17</th>
<th>Zmiana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales of products, goods and materials</td>
<td>22,981,937</td>
<td>21,533,550</td>
<td>+ 6.7%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>16,673,102</td>
<td>15,474,833</td>
<td>+ 7.7%</td>
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<tr>
<td>Operating profit (loss)</td>
<td>15,982,199</td>
<td>14,974,506</td>
<td>+ 6.7%</td>
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<tr>
<td>Gross profit (loss)</td>
<td>15,879,773</td>
<td>14,989,866</td>
<td>+ 5.9%</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>12,801,699</td>
<td>12,037,340</td>
<td>+ 6.3%</td>
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<tr>
<td>Net cash flow</td>
<td>- 507,006</td>
<td>10,861,516</td>
<td>- 104.7%</td>
</tr>
<tr>
<td>cash flow from operating activities</td>
<td>12,555,235</td>
<td>12,998,941</td>
<td>- 3.4%</td>
</tr>
<tr>
<td>cash flow from investing activities</td>
<td>12,732,241</td>
<td>12,998,941</td>
<td>- 19.0%</td>
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<tr>
<td>cash flow from financial activities</td>
<td>- 11,330,000</td>
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</table>

Profit (loss) per ordinary share

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>31 marca 2018 r.</th>
<th>31 marca 2017 r.</th>
<th>Zmiana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>48,643,508</td>
<td>47,532,524</td>
<td>+ 2.3%</td>
</tr>
<tr>
<td>Liabilities and provisions</td>
<td>3,409,595</td>
<td>2,884,019</td>
<td>+ 18.2%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>3,409,595</td>
<td>2,884,019</td>
<td>+ 18.2%</td>
</tr>
<tr>
<td>Net equity</td>
<td>45,233,913</td>
<td>44,648,505</td>
<td>+ 1.3%</td>
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<tr>
<td>Initial equity</td>
<td>515,000</td>
<td>515,000</td>
<td>-</td>
</tr>
<tr>
<td>Number of shares</td>
<td>25,750,000</td>
<td>25,750,000</td>
<td>-</td>
</tr>
<tr>
<td>BVPS</td>
<td>1.76</td>
<td>1.73</td>
<td>+ 1.7%</td>
</tr>
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</table>
## Operating summary

### Selected separated financial data

<table>
<thead>
<tr>
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<th>2017/18</th>
<th>2016/17</th>
<th>Zmiana</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales of products, goods and materials</strong></td>
<td>89 425 925</td>
<td>76 254 434</td>
<td>+17%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>64 041 162</td>
<td>54 955 874</td>
<td>+17%</td>
</tr>
<tr>
<td><strong>Operating profit (loss)</strong></td>
<td>61 571 828</td>
<td>53 262 675</td>
<td>+16%</td>
</tr>
<tr>
<td><strong>Gross profit (loss)</strong></td>
<td>59 747 844</td>
<td>53 276 157</td>
<td>+12%</td>
</tr>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td>48 073 333</td>
<td>42 724 724</td>
<td>+13%</td>
</tr>
<tr>
<td><strong>Net cash flow</strong></td>
<td>-4 937 698</td>
<td>10 751 873</td>
<td>-146%</td>
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<td>cash flow from operating activities</td>
<td>48 253 425</td>
<td>42 539 664</td>
<td>+13%</td>
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<tr>
<td>cash flow from investing activities</td>
<td>-5 553 623</td>
<td>-3 977 792</td>
<td>+40%</td>
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<tr>
<td>cash flow from financial activities</td>
<td>-47 637 500</td>
<td>-27 810 000</td>
<td>+71%</td>
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<tr>
<td><strong>Number of shares</strong></td>
<td>25 750 000</td>
<td>25 750 000</td>
<td>-</td>
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<tr>
<td><strong>Profit (loss) per ordinary share</strong></td>
<td>1.87</td>
<td>1.66</td>
<td>+12%</td>
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</table>

### PLN

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Net sales of products, goods and materials</strong></td>
<td>22 981 937</td>
<td>21 681 721</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>16 015 246</td>
<td>15 606 711</td>
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<tr>
<td><strong>Operating profit (loss)</strong></td>
<td>15 819 290</td>
<td>14 945 810</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Gross profit (loss)</strong></td>
<td>12 741 215</td>
<td>11 993 285</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td>9 430 858</td>
<td>16 548 133</td>
<td>-43%</td>
</tr>
<tr>
<td>cash flow from operating activities</td>
<td>22 493 099</td>
<td>18 792 757</td>
<td>+20%</td>
</tr>
<tr>
<td>cash flow from investing activities</td>
<td>-1 732 241</td>
<td>-2 244 626</td>
<td>-23%</td>
</tr>
<tr>
<td>cash flow from financial activities</td>
<td>-11 330 000</td>
<td>0</td>
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<td><strong>Total assets</strong></td>
<td>47 933 940</td>
<td>46 816 304</td>
<td>+2%</td>
</tr>
<tr>
<td><strong>Liabilities and provisions</strong></td>
<td>3 364 450</td>
<td>2 682 647</td>
<td>+25%</td>
</tr>
<tr>
<td><strong>Long-term liabilities</strong></td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Short-term liabilities</strong></td>
<td>1 712 150</td>
<td>1 294 373</td>
<td>+32%</td>
</tr>
<tr>
<td><strong>Net equity</strong></td>
<td>44 569 490</td>
<td>44 133 656</td>
<td>+1%</td>
</tr>
<tr>
<td><strong>Initial equity</strong></td>
<td>515 000</td>
<td>515 000</td>
<td>-</td>
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<td><strong>Number of shares</strong></td>
<td>25 750 000</td>
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<tr>
<td><strong>BVPS</strong></td>
<td>1.73</td>
<td>1.71</td>
<td>+1%</td>
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### PLN

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<td></td>
<td>64 041 162</td>
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</table>
Operating summary

Key events

The company has recorded growth in the number of clients who are using the 'LiveChat' solution in each month of 2017 fiscal year. Data on client acquisition and growth rates are shown in the chart below.

![Number of clients (net)](chart)

Annual growth rates are falling because of the rapidly growing base effect. While the number of clients is rising fast, the company is successfully keeping its churn rate at a very stable, 3% level, with very minor variations in individual months. The churn rate is significantly lower in the case of larger clients (companies which use more expensive subscription plans and those purchasing a greater number of licenses).

FIRST QUARTER

At the end of Q1, the company had 20,765 active and paying LiveChat customers versus 15,892 clients the year before. Net increase in the number of clients (accounting for churn), totaled 526 in April, 505 in May and 483 in June. The managing board would like to emphasize that its offering is addressed to business clients, companies which use their websites to sell or to contact their own clients. At present, the clients of LiveChat Software are able to choose from among four subscription plans. Final revenue per customer depends on the plan selected, as well as the number of licenses purchased.

In June 2017, the Company launched European Data Centers for clients operating in European Union countries. The Centers are located in Frankfurt and Amsterdam.

SECOND QUARTER

The company reported very strong results in terms of customer acquisition numbers. In July, this figure reached 254 (net), in August 475 and in September 443. Ultimately, at the end of H1, the number of customers consisted of 21,937 companies versus 16,949 the year before.

An Ordinary General Meeting of Shareholders was held on July 17, to decide, among other items, about the allocation of profit from the previous fiscal year. According to resolution of the Ordinaty General Meeting, unconsolidated net profit of LiveChat Software S.A., totaling PLN 42,724,723.86 in the fiscal year ending March 31, 2017, was allocated as follows:

- PLN 36,307,500.00 for dividend to shareholders,
- PLN 6,417,223.86 PLN for reserve capital.

According to this decision, dividend per share totaled PLN 1.41.

Decision of the General Meeting was made in accordance with proposal of the Management Board, which had been accepted by the Supervisory Board. This recommendation on the allocation of profits was made due to changes in the Code of Commercial Companies, which states that if the company has R&D-related assets on its books, it needs to have reserve and additional capital set aside in excess of the value of assets relating to newly initiated R&D work.

In the second quarter, the Company also released the BotEngine product - a platform for creating conversational chatbots (in beta version) and a full version of the chat.io product, which is a bridgehead for the modernization of the flagship LiveChat product.
Operating summary

Key events

THIRD QUARTER

In Q3, the company continued its growth, acquiring new clients and expanding its customer base. At the end of December 2017, the number of companies who used the LiveChat Solution totaled 23,107 compared to 18,070 the year before. In October, the customer base grew by 292, net of churn, in November by a record 576 and in December by 302.

On December 20, after having received a positive opinion of the Supervisory Board, the Managing Board adopted a resolution on the payment of advance dividend from net profit for the April 1, 2017 - March 31, 2018 fiscal year. A total of PLN 11.33m, or PLN 0.44 per share was allocated for dividend payment.

On December 29, 2017, following the last trading session of the year, shares of LiveChat Software joined the mWIG40 index. At the same time the stock was removed from the sWIG80 index.

In October, the Company launched a beta version of KnowledgeBase. In November, the Company met with the capital market and the Management Board presented a new company development strategy of the Company.

FOURTH QUARTER

At the end of the fiscal year the number of clients using the paid version of LiveChat product totaled 24,065 versus 19,251 the year earlier. In January, on a month-to-month basis, the number of clients rose by 263, in February by 321 and in March by 374 (all figures net of churn).

In February, the Company decided to update its price plans, removing the Regular plan from the offer, and introducing the Business and Enterprise plan.

In March, LiveChat Software also changed its headquarters, from the office on Aleja Dębowa in Wrocław, and moved to a renovated building at 47 Zwycięska Street.
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.

Changes in the structure of the group

During the reporting period there were no changes in the organizational structures of the companies which are part of the Group. After the reporting period, the organizational structure of the Group was changed. The structure which has been in force since April 2018 will be presented on the next slide.

Organizational structure of LiveChat Software

- **CEO**
  - CFO
    - Accounting Dept
  - CMO
    - Graphic Designer, Copywriters, Marketing Specialist, Social Media Ninja, Partner Program Manager, Web Developer
  - IT Director
    - Programmers Team
    - Quality Manager
    - UX Specialist
  - Customer Support Director
    - Customer Service Team
    - Technical Customer Service Team
  - Director of Infrastructure
    - Admin Team
Structure of LiveChat Software

The diagram below presents the organizational structure of LiveChat Software Group, which has been in force since April 2018.
Description of the activities of LiveChat Software Group

Description of Group activities

LiveChat Software S.A. is a producer and a global supplier of LiveChat. The Company’s portfolio also includes: chat.io (live chat type of software, which structure allows easy integration with very different platforms), BotEngine (a platform for creating chatbots) and KnowledgeBase (application for creating your own knowledge bases).

The LiveChat product is designed for rapid and intuitive contact between people who visit the website and the company employees. Additionally, the app collects information about client behavior on the website, which is 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 (B2C) and business-to-business (B2B) communications. The LiveChat product is addressed to all companies, which all share the need for communications with clients over the Internet.

Current activities of the group include improvements of the LiveChat product by the developer team, ensuring 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 combined 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, and launching new functionalities as well as new price levels. A progressive price list enables LiveChat Software to generate higher sales from clients, who use a greater number of LiveChat functionalities.

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

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

**BotEngine**

In the first quarter, LiveChat Software launched an open beta testing of the BotEngine platform, the aim of which is to enable companies to prepare and implement conversational chatbots on their own. From February 2018, the solution has been operating on the market as a complete product.

BotEngine is integrated not only with “LiveChat” solution, but also with others tools, such as Facebook Messenger. In addition, the user can connect a created bot with an internal system, which allows, for example, to verify and transfer data obtained by the bot during a conversation to other systems in the company. The integration possibilities of BotEngine are virtually unlimited due to the fact that application’s API is shared by the Company.

The BotEngine solution is based on two phrase matching systems. The main one - machine learning, which analyzes the entire entered phrase, and the second one based on key words. You can use them alternately or even combine them within one scenario. So far, the Company has implemented many facilities in the product that help in preparing the chatbot for people who do not have advanced technological knowledge. These include, among others:

- ‘user entities’, meaning pre-defined phrases relevant to the scenario, e.g. lists of products, services or location of outlets, as well as ready-to-use ‘entities’, e.g. phone number,
- ‘transfer to agent’ in integration with LiveChat software — a complete solution of relieving agents and solving simple or recurring matters by the bot.

It is worth noting that besides text phrases, in scenarios the bot can also use the „rich messages" e.g. graphic cards, buttons for quick answers, or various types of actions, e.g. „reset conversation". Therefore, the chatbot's conversation is even more interactive and attractive.

In May 2018, the Company also implemented the additional functionality of BotEngine, which is Training (improving the bot). Training is based on machine learning technology. It involves in sending phrases to the Training tab, which the bot did not recognize during the conversation, in the next step the user can view the specified phrases and add them to the scenario.

Users of BotEngine can find out about innovations through the newsletter, notifications in the BotEngine application and the blog.
Description of the activities of LiveChat Software Group

KnowledgeBase.ai

The Company launched application in October 2017, initially in an open beta version and since March 2018 it has been a complete and paid product.

KnowledgeBase platform allows companies to create their own knowledge bases with access for employees and clients. Thanks to KnowledgeBase, articles regarding e.g. technical support are stored in one place. Consequently, while providing customer service, an employee does not have to switch between the tabs in the browser looking for the answer to the question, but only needs to search for information in the database. This improves the efficiency of service and speeds up communication with clients, who also have an option to search for a solution to a given problem independently. The application can be integrated directly with the LiveChat solution, but also with other tools.
Description of the activities of LiveChat Software Group

chat.io
Chat.io is an advanced type of live chat solution. It differs from the Company’s flagship product since it does not have the ‘end of conversation’ state. All the interactions, just like the SMS exchange, are open-ended. This kind of structure makes integration with various other platforms more natural.
Chat.io is in the early-stage of project development and at this moment it is not being actively promoted. However, it is offered on a commercial basis and it does have paying customers. Chat.io is also used to test new solutions in the production environment and collect feedback from the users. Due to the stage of this project and the currently low revenues generated by Chat.io as a percentage of its overall sales, the Company is not disclosing the number of active users of this solution.
Chat.io is a solution integrated with Facebook.
Description of the activities of LiveChat Software Group

LiveChat as a communication platform

The main activity on which LiveChat Software is focused now is to build a bigger communication platform – LiveChat Platform and go beyond our flagship product. The project aims to create a business ecosystem around our products existing on the market. It is supposed to accelerate the development of new solutions and to facilitate the introduction of their new functionalities which would be introduced not only by employees of the Company, but also by external entities. Thanks to the platform and tools available on it (instructions, API documentation, examples of codes), everyone outside the Company will have an opportunity to create their own extension or application based on LiveChat technology. In this way, it is possible to introduce features that currently are not a part of product, but may be crucial for some users.

At the moment, LiveChat Platform consists of: Developer Console and Developer Platform (publicly launched in August 2017) as well as Marketplace with all created applications (released in the LiveChat application and on our website). Through the LiveChat Marketplace, application developers and add-ons will be able to share them in a paid or free version with over 24.5 thousand companies using the product.

Currently, the Company is working on adding individual elements to the platform. One of the key part of this project was a complete redesign of LiveChat application, in order to prepare it for work in a partially ‘open’ model. The change process in the product began in February 2018.

The ecosystem around the LiveChat solution does not only offer a change in the business approach, but also activities extending the company’s target groups. Thanks to the platform and the products created through it, LiveChat is also promoted by external developers, partners, other companies or startups.
Description of the activities of LiveChat Software Group

Description of Group activities
The Company works in dedicated teams on additional activities contributing to the organic increase in the number of clients:

LiveChat Partner Program - the goals of the program is to build new sales channels based on cooperation with companies from various industries or with freelancers. The program consists of the following models:
• Affiliate model – in which the partners receive a commission for each product sold by them,
• Solution partners – it assumes the possibility of including our product (and associated services) into the partner’s offer portfolio and independent pricing policy.

Actions taken in the project:
• development of the website and the blog (to strengthen organic traffic and the number of entities interested in cooperation),
• development of the dashboard (partner interface) giving partners new functions and tools for creating and managing LC licenses created in this model,
• Partner program API - giving the opportunity to track and optimize activity in the project and automate many activities which take place within it.

Content marketing activities
• LiveChat Blog monthly reaches 100,000 UU,
• The Company put a lot of energy into the content created on our site, which allows us to generate high traffic to our websites and high positions in browsers.

Partnerships - activities including cooperation with other companies creating software. They are based on cooperation at various levels: mutual promotion, creation of joint integration, listing in supermarkets.

Cross-selling / Up-selling of out products - the Company has separated a pilot team that is responsible for making LiveChat users fully take advantage of its additional options. This goal is achieved primarily through up-selling of new products additionally to the subscribed license, e.g. BotEngine or paid add-ons from Marketplace such as KnowledgeBase application or integration with Facebook Messenger. The undertaken activities help the Company develop a portfolio of products that complement each other, comprehensively responding to the needs of clients.
In the case of up-selling, the team focuses primarily on activities that motivate current and active clients to use upgraded plans and higher amount agent sites.
Description of the activities of LiveChat Software Group

Number of clients [thous]
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 Managing 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).

LivePerson specializes in live chat solutions for big corporate clients. The company claims to have over 18,000 clients.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Zendesk Chat (paid)</th>
<th>Quarter-over-quarter growth</th>
<th>LiveChat (paid)</th>
<th>Quarter-over-quarter growth</th>
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<td>24,065</td>
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</tr>
</tbody>
</table>

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

*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. Companies which introduce new live chat products on the market promote such solutions, 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, LiveChat and BotEngine, 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 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 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 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 12 months period ending March 31, 2018, revenue from sales of LiveChat, Inc. totaled PLN 87,913,777.38 and the total value of expenses reinvoiced by LiveChat, Inc. was PLN 16,048,109.94. Margins owed to LiveChat, Inc. totaled PLN 229,804.13. In 2016, these figures totaled PLN 75,571,445.07. PLN 13,514,399.66 and PLN 874,608.00 respectively.

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<tr>
<th>[PLN]</th>
<th>2017/18</th>
<th>2016/17</th>
</tr>
</thead>
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<td>Sales to LiveChat, Inc.</td>
<td>87,913,777.38</td>
<td>75,571,445.07</td>
</tr>
<tr>
<td>Cost of services purchased from LiveChat, Inc.</td>
<td>16,094,109.94</td>
<td>13,514,399.66</td>
</tr>
</tbody>
</table>

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 to March 31, 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.

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.

www.investor.livechatinc.com
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 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 creates 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 promote 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

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.

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

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

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

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 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.

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.
Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group's operations

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 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.

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.
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.

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.
Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group's operations

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.

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 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.

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.

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 less used by the Company to acquire new customers.
At the same time, 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.
Financial situation of LiveChat Software Group

Presentation of consolidated results

Income statement

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2016/17</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>89,425,925</td>
<td>76,254,434</td>
<td>+ 17.3%</td>
</tr>
<tr>
<td>Costs of goods sold</td>
<td>14,350,061</td>
<td>11,748,600</td>
<td>+ 22.1%</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>75,075,864</td>
<td>64,505,834</td>
<td>+ 16.4%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7,193,397</td>
<td>6,859,405</td>
<td>+ 4.9%</td>
</tr>
<tr>
<td>General management and administration</td>
<td>6,533,116</td>
<td>4,314,743</td>
<td>+ 51.4%</td>
</tr>
<tr>
<td>Profit (loss) on sales</td>
<td>61,349,351</td>
<td>53,331,685</td>
<td>+ 12.2%</td>
</tr>
<tr>
<td>Other operating income</td>
<td>19,428</td>
<td>19,089</td>
<td>+ 1.8%</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>7,061</td>
<td>1,202</td>
<td>+ 487.4%</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>61,361,717</td>
<td>53,349,572</td>
<td>+ 15.0%</td>
</tr>
<tr>
<td>Financial income</td>
<td>131,767</td>
<td>125,481</td>
<td>+ 5.0%</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>1,513,849</td>
<td>6,670</td>
<td>+ 225.96%</td>
</tr>
<tr>
<td>Profit (loss) before tax</td>
<td>59,979,636</td>
<td>53,468,384</td>
<td>+ 12.2%</td>
</tr>
<tr>
<td>Income tax</td>
<td>11,674,511</td>
<td>10,551,433</td>
<td>+ 10.6%</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>48,305,126</td>
<td>42,916,950</td>
<td>+ 12.6%</td>
</tr>
</tbody>
</table>

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 fourth quarter of 2017/18 financial year, the number of clients rose by 958. At the end of the March 2018, the number of client totaled 24,065 vs. 19,251 the year before, an increase by 0.25% 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, 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. Commission-related costs of the partnership program are also booked under this category. Despite the rapid increase in the scale of its business, the Group is working to maintain a high degree of cost discipline.

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.

Foreign exchange differences arising from the presentation of the company’s FX account balance on its balance sheet will be presented as financial expenses 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 LiveChat Software Group

Presentation of consolidated results

Balance sheet - assets

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>March 31, 2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>11,438,626</td>
<td>8,061,900</td>
<td>+41.9%</td>
</tr>
<tr>
<td>Intangible and legal assets</td>
<td>8,462,892</td>
<td>6,058,885</td>
<td>+39.7%</td>
</tr>
<tr>
<td>Fixed real assets</td>
<td>1,230,790</td>
<td>572,413</td>
<td>+115.0%</td>
</tr>
<tr>
<td>Long-term receivables</td>
<td>187,690</td>
<td>40,090</td>
<td>+368.2%</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>313,937</td>
<td>308,152</td>
<td>+1.9%</td>
</tr>
<tr>
<td>Long-term prepayments</td>
<td>1,243,318</td>
<td>1,082,360</td>
<td>+14.9%</td>
</tr>
<tr>
<td>Working capital</td>
<td>37,204,881</td>
<td>39,470,624</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Receivables for goods and services sold</td>
<td>577,720</td>
<td>476,027</td>
<td>+21.4%</td>
</tr>
<tr>
<td>Other receivables</td>
<td>6,334,169</td>
<td>4,033,751</td>
<td>+57.0%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>30,133,807</td>
<td>34,749,564</td>
<td>-13.3%</td>
</tr>
<tr>
<td>Short-term prepayments</td>
<td>159,186</td>
<td>211,282</td>
<td>-24.7%</td>
</tr>
<tr>
<td>Total assets</td>
<td>48,643,508</td>
<td>47,532,524</td>
<td>+2.3%</td>
</tr>
</tbody>
</table>

Liquid assets predominate in the structure of the company's assets. Liquidity ratios continue to stay at very high levels, as presented in the table on page 33.

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

The lower balance of cash at the end of 2017 fiscal year, as compared to the end of 2016 fiscal year, is due to payment of an advance dividend for the year ended on March 31, 2018, no such payment was made the year before.
Financial situation of LiveChat Software Group

Presentation of consolidated results

Balance sheet - liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Own equity</td>
<td>45 233 913</td>
<td>44 648 504</td>
<td>+ 1.3%</td>
</tr>
<tr>
<td>Initial equity</td>
<td>515 000</td>
<td>515 000</td>
<td>-</td>
</tr>
<tr>
<td>Retained earnings and equity resulting from merger transactions</td>
<td>7 311 156</td>
<td>893 933</td>
<td>+ 717.9%</td>
</tr>
<tr>
<td>FX differences</td>
<td>-74 882</td>
<td>7 335</td>
<td>- 1120.9%</td>
</tr>
<tr>
<td>Advance payment for a dividend</td>
<td>-11 330 000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unallocated equity from the previous years</td>
<td>507 513</td>
<td>315 287</td>
<td>+ 61.0%</td>
</tr>
<tr>
<td>Net profit (loss) for the fiscal year</td>
<td>48 305 126</td>
<td>42 916 950</td>
<td>+ 12.6%</td>
</tr>
<tr>
<td>Liabilities and provisions</td>
<td>3 409 595</td>
<td>2 884 019</td>
<td>+ 18.2%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>3 409 595</td>
<td>2 884 019</td>
<td>+ 18.2%</td>
</tr>
<tr>
<td>Trade payables</td>
<td>2 807 249</td>
<td>2 230 794</td>
<td>+ 25.8%</td>
</tr>
<tr>
<td>Other payables</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>48 643 508</td>
<td>47 532 524</td>
<td>+ 2.3%</td>
</tr>
</tbody>
</table>
### Financial situation of LiveChat Software Group

#### Presentation of consolidated results

#### Cash position

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2016/17</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross profit (loss)</strong></td>
<td>59,979,636</td>
<td>53,468,384</td>
<td>+12.2%</td>
</tr>
<tr>
<td><strong>Total adjustments, including:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Depreciation and amortization</td>
<td>2,469,250</td>
<td>1,693,200</td>
<td>+45.8%</td>
</tr>
<tr>
<td>- Income tax paid</td>
<td>-11,963,498</td>
<td>-11,058,540</td>
<td>+8.2%</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>48,575,366</td>
<td>43,204,610</td>
<td>+12.4%</td>
</tr>
<tr>
<td><strong>Interest received</strong></td>
<td>131,480</td>
<td>118,811</td>
<td>+10.7%</td>
</tr>
<tr>
<td><strong>Investments in intangibles and in real fixed assets</strong></td>
<td>-5,685,103</td>
<td>-3,977,792</td>
<td>+42.9%</td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td>-5,553,623</td>
<td>-3,858,980</td>
<td>+43.9%</td>
</tr>
<tr>
<td><strong>Dividends paid</strong></td>
<td>-47,637,500</td>
<td>-27,810,000</td>
<td>+71.3%</td>
</tr>
<tr>
<td><strong>Net cash flow from financing activities</strong></td>
<td>-47,637,500</td>
<td>-27,810,000</td>
<td>+71.3%</td>
</tr>
<tr>
<td><strong>Total net cash flow</strong></td>
<td>-4,615,757</td>
<td>11,535,630</td>
<td>-140.0%</td>
</tr>
<tr>
<td><strong>Cash at the beginning of the period</strong></td>
<td>34,749,564</td>
<td>23,213,934</td>
<td>+49.7%</td>
</tr>
<tr>
<td><strong>Cash at the end of the period</strong></td>
<td>30,133,807</td>
<td>34,749,564</td>
<td>-13.3%</td>
</tr>
</tbody>
</table>
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.

**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 2017/2018 year were as follows:
Gross profit margin has reached 82.3%, EBITDA margin 71.4%, EBIT margin 68.6% and net margin 54.0%.
Return On Equity has reached 106.8% while Return On Assets totaled 99.3%.
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.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2017/18</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit margin</td>
<td>82.3%</td>
<td>84.6%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>71.4%</td>
<td>72.2%</td>
</tr>
<tr>
<td>EBIT</td>
<td>68.6%</td>
<td>67.0%</td>
</tr>
<tr>
<td>Net margin</td>
<td>54.0%</td>
<td>56.3%</td>
</tr>
<tr>
<td>ROE</td>
<td>106.8%</td>
<td>96.1%</td>
</tr>
<tr>
<td>ROA</td>
<td>99.3%</td>
<td>90.3%</td>
</tr>
<tr>
<td>Current ratio</td>
<td>10.9</td>
<td>13.7</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>10.9</td>
<td>13.7</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>8.8</td>
<td>12.0</td>
</tr>
</tbody>
</table>

* Definitions of these ratios are found on page 53
## Financial situation of LiveChat Software Group

### Presentation of separated results

#### Income statement

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2016/17</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>89,425,925</td>
<td>76,254,434</td>
<td>+17%</td>
</tr>
<tr>
<td>Costs of goods sold</td>
<td>14,139,951</td>
<td>11,835,497</td>
<td>+19%</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>75,285,974</td>
<td>64,418,936</td>
<td>+17%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7,193,397</td>
<td>6,859,405</td>
<td>+5%</td>
</tr>
<tr>
<td>General management and administration</td>
<td>6,533,116</td>
<td>4,314,743</td>
<td>+51%</td>
</tr>
<tr>
<td>Profit (loss) on sales</td>
<td>61,559,461</td>
<td>53,244,788</td>
<td>+16%</td>
</tr>
<tr>
<td>Other operating income</td>
<td>19,428</td>
<td>19,089</td>
<td>+2%</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>7,061</td>
<td>1,202</td>
<td>+487%</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>61,571,828</td>
<td>53,262,675</td>
<td>+16%</td>
</tr>
<tr>
<td>Financial income</td>
<td>131,767</td>
<td>125,481</td>
<td>+5%</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>1,955,751</td>
<td>1,119,987</td>
<td>+1646%</td>
</tr>
<tr>
<td>Profit (loss) before tax</td>
<td>59,747,844</td>
<td>53,276,157</td>
<td>+12%</td>
</tr>
<tr>
<td>Income tax</td>
<td>11,674,511</td>
<td>10,551,433</td>
<td>+11%</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>48,073,333</td>
<td>42,724,724</td>
<td>+13%</td>
</tr>
</tbody>
</table>
## Financial situation of LiveChat Software Group

### Presentation of separated results

#### Balance sheet - assets

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>March 31, 2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>11 440 283</td>
<td>8 063 557</td>
<td>+42%</td>
</tr>
<tr>
<td>Intangible and legal</td>
<td>8 462 892</td>
<td>6 058 885</td>
<td>+40%</td>
</tr>
<tr>
<td>Fixed real assets</td>
<td>1 230 790</td>
<td>572 413</td>
<td>+115%</td>
</tr>
<tr>
<td>Long-term receivables</td>
<td>187 690</td>
<td>40 090</td>
<td>+368%</td>
</tr>
<tr>
<td>Deferred income tax</td>
<td>313 937</td>
<td>308 152</td>
<td>+2%</td>
</tr>
<tr>
<td>Long-term prepayments</td>
<td>1 557 255</td>
<td>1 390 512</td>
<td>+12%</td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td>36 493 657</td>
<td>38 752 747</td>
<td>-6%</td>
</tr>
<tr>
<td>Inventories</td>
<td>84 902</td>
<td>12 237</td>
<td>+594%</td>
</tr>
<tr>
<td>Receivables for goods</td>
<td>1 374 251</td>
<td>943 965</td>
<td>+46%</td>
</tr>
<tr>
<td>and services sold</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>6 249 267</td>
<td>4 021 515</td>
<td>+55%</td>
</tr>
<tr>
<td>Cash and cash</td>
<td>28 626 051</td>
<td>33 563 749</td>
<td>-15%</td>
</tr>
<tr>
<td>equivalents</td>
<td>159 186</td>
<td>211 282</td>
<td>-25%</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>47 933 940</td>
<td>46 816 304</td>
<td>+2%</td>
</tr>
</tbody>
</table>
Financial situation of LiveChat Software Group

Presentation of separated results

Balance sheet - liabilities

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2018</th>
<th>March 31, 2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own equity</td>
<td>44 569 490</td>
<td>44 133 656</td>
<td>+1%</td>
</tr>
<tr>
<td>Initial equity</td>
<td>515 000</td>
<td>515 000</td>
<td>-</td>
</tr>
<tr>
<td>Retained earnings and equity resulting from merger transactions</td>
<td>7 311 156</td>
<td>893 933</td>
<td>+718%</td>
</tr>
<tr>
<td>FX differences</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Unallocated equity from the previous years</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Net profit (loss) for the fiscal year</td>
<td>48 073 333</td>
<td>42 724 724</td>
<td>-14%</td>
</tr>
<tr>
<td>Write-offs from net profit during the financial year</td>
<td>-11 330 000</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Liabilities and provisions</td>
<td>3 364 450</td>
<td>2 682 647</td>
<td>+25%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Provisions on deferred income tax</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>1 712 150</td>
<td>1 294 373</td>
<td>+32%</td>
</tr>
<tr>
<td>Trade payables</td>
<td>1 109 804</td>
<td>641 148</td>
<td>+73%</td>
</tr>
<tr>
<td>Current income tax</td>
<td>602 346</td>
<td>648 242</td>
<td>-7%</td>
</tr>
<tr>
<td>Other payables</td>
<td>0</td>
<td>4 983</td>
<td>-100%</td>
</tr>
<tr>
<td>Rozliczenia Międzyokresowe</td>
<td>1 652 300</td>
<td>1 388 275</td>
<td>+19%</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>47 933 940</td>
<td>46 816 304</td>
<td>+2%</td>
</tr>
</tbody>
</table>
Financial situation of LiveChat Software Group

Presentation of separated results

Cash position

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>2017/18</th>
<th>2016/17</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit (loss)</td>
<td>59,747,844</td>
<td>53,276,157</td>
<td>+12%</td>
</tr>
<tr>
<td>Total adjustments, including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,469,334</td>
<td>1,693,200</td>
<td>+46%</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>11,674,511</td>
<td>10,551,433</td>
<td>+11%</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>48,253,425</td>
<td>42,539,664</td>
<td>+13%</td>
</tr>
<tr>
<td>Interest received</td>
<td>131,480</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Investments in intangibles and in real fixed assets</td>
<td>5,685,103</td>
<td>3,977,792</td>
<td>+43%</td>
</tr>
<tr>
<td>Cash flow from investing activities</td>
<td>-5,553,623</td>
<td>-3,977,792</td>
<td>+40%</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>47,637,500</td>
<td>27,810,000</td>
<td>+71%</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>-47,637,500</td>
<td>-27,810,000</td>
<td>+71%</td>
</tr>
<tr>
<td>Total net cash flow</td>
<td>-4,937,698</td>
<td>10,751,873</td>
<td>-146%</td>
</tr>
<tr>
<td>Cash at the beginning of the period</td>
<td>33,563,749</td>
<td>22,811,877</td>
<td>+47%</td>
</tr>
<tr>
<td>Cash at the end of the period</td>
<td>28,626,051</td>
<td>33,563,749</td>
<td>-15%</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of votes</th>
<th>Voting stake</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationale-Nederlanden Powszechne Towarzystwo Emerytalne</td>
<td>1 425 000</td>
<td>5.53%</td>
</tr>
<tr>
<td>Shareholder consortium - a dominant entity, including the following shareholders with over 5% stakes:</td>
<td>12 129 282</td>
<td>47.10%</td>
</tr>
<tr>
<td>Mariusz Ciepły</td>
<td>4 010 000</td>
<td>15.57%</td>
</tr>
<tr>
<td>Maciej Jarzębowski</td>
<td>3 010 000</td>
<td>11.69%</td>
</tr>
<tr>
<td>Jakub Sitarz</td>
<td>3 010 000</td>
<td>11.69%</td>
</tr>
<tr>
<td>Other shareholders</td>
<td>12 195 718</td>
<td>47.36%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25 750 000</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

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.
Information about the shares and shareholders

Changes in the shareholder structure
During 2017 financial year, the following changes took place in the company's shareholder structure.

On September 12, 2017, the company has been notified by Copernicus Capital Towarzystwo 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 notification 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 notification hold a total of 316,717 shares representing 1.2308% of the Company's capital and the same number of votes at the Company's General Meeting.

At the same time LiveChat Software has received information 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 this information, each of the above has purchased 10,000 shares of the company at PLN 45 a piece.
Governing bodies

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:

<table>
<thead>
<tr>
<th>First and last name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariusz Ciepły</td>
<td>CEO</td>
</tr>
<tr>
<td>Urszula Jarzębowska</td>
<td>Board Member</td>
</tr>
</tbody>
</table>

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

Mariusz Ciepły is one of the founders and core shareholders of LiveChat Software. He has been serving as the company’s CEO since 2010. Mr. Ciepły 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 Jarzębowska has been serving as a Board Member at LiveChat Software S.A. since 2010. She has been working at the company since 2002. Ms. Jarzębowska has a master’s degree from the Wrocław 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 Managing Board of LiveChat Software S.A. in the period between April 1, 2017 and March 31, 2018

<table>
<thead>
<tr>
<th>First and last name</th>
<th>Role</th>
<th>Remuneration (in PLN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariusz Ciepły</td>
<td>CEO</td>
<td>216 000</td>
</tr>
<tr>
<td>Urszula Jarzębowska</td>
<td>Board Member</td>
<td>144 000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>360 000</strong></td>
</tr>
</tbody>
</table>

Principles of operation of the Managing Board

The Managing Board represents and Company and manages its affairs.

The Managing Board acts on the basis of Code of Commercial Companies regulations, Company’s Articles of Association, resolutions of the Supervisory Board, resolutions of the General Meeting, Managing Board regulations and the common legal regulations in force.

The Managing Board carries out its duties collectively, taking up resolutions at Managing Board meetings. Resolutions are taken up by an ordinary majority of votes cast. The vote of Chief Executive Officer prevails if the number of votes is equal.

The Managing Board takes up resolutions if the meeting is attended by at least half the members of the Managing Board, including the Chief Executive Officer. Managing Board meetings will be held at least once a month. The meetings are called by the Chief Executive Officer, or, in his or her absence, by the Deputy Chief Executive Officer or another Board member replacing the Chief Executive Officer. Meetings of the Managing Board may also take place without being formally called up, if all members of the Managing Board are present at such meeting.

Managing Board meetings are called at the request of each Board member, with an agenda indicated by the applicant. Other matters may also be considered at such Board meetings, as long as these matters are listed on the agenda.

Board meetings are chaired by the Chief Executive Officer or by another member designated by the Chief Executive Officer, or, in their absence, by another Board member.

Board member may participate in the meeting using remote communications devices.

Persons invoited by the Chief Executive Officer may participate in Board meetings.

The Managing Board may take up resolution outside of the Board meeting, through a written vote or a vote held using remote communications devices.

The principles of operation of the Managing Board have been described in detail in the Company’s Articles of Association and in Managing Board Regulations, whose full text is available at www.livechatsoftware.pl.
Governing bodies

Membership of the Supervisory Board

As of March 31, 2018, the Supervisory Board of LiveChat Software S.A. consisted of the following persons:

<table>
<thead>
<tr>
<th>First and last name</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maciej Jarzębowski</td>
<td>Chairman of the Supervisory Board</td>
</tr>
<tr>
<td>Marcin Mańdziak</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Jakub Sitarz</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Marta Ciepła</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Michał Markowski</td>
<td>Member of the Supervisory Board</td>
</tr>
</tbody>
</table>

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 VentureIncubator SA.

Marcin Mańdziak meets the criteria of an independent Member of the Supervisory Board.

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.

<table>
<thead>
<tr>
<th>First and last name</th>
<th>Function</th>
<th>Number of shares held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariusz Ciepły</td>
<td>CEO</td>
<td>4 010 000</td>
</tr>
<tr>
<td>Urszula Jarzębowska</td>
<td>Board Member</td>
<td>1 210 250</td>
</tr>
<tr>
<td>Maciej Jarzębowski</td>
<td>Chairman of the Supervisory Board</td>
<td>3 010 000</td>
</tr>
<tr>
<td>Jakub Sitarz</td>
<td>Member of the Supervisory Board</td>
<td>3 010 000</td>
</tr>
</tbody>
</table>
Principles of operation of the Supervisory Board

The Supervisory Board shall maintain constant oversight over Company’s operations in all areas of its activity.

The Supervisory Board shall act on the basis of Code of Commercial Companies regulations, Company’s Articles of Association, resolutions of the General Meeting, Supervisory Board regulations and the common legal regulations in force.

The Supervisory Board shall select, among its members a Chairperson and a Deputy Chairperson. The Supervisory Board may also select a Secretary.

The Supervisory Board shall meet at least three times in the course of the fiscal year.

Meetings of the Supervisory Board shall be called by Chairperson of the Supervisory Board, or, in his or her absence, by the Deputy Chairperson. Board meetings shall be called by the Chairperson at his or her own initiatives, or at the request of any of the Board members, or at the request of the Managing Board. If the Chairperson, when requested to do so by a Supervisory Board member, fails to call such meeting within 14 days of such request, the applicant shall be entitled to call Supervisory Board meeting. The invitation to participate shall include place and time of the start of the meeting and the planned agenda of the Board meeting.

Meetings of the Supervisory Board may also be held without being formally called if all Board members are present and no one objects to such meeting taking place, or has objections to the agenda.

Secretary of the Supervisory Board shall be in charge of administration of the Supervisory Board meetings, if such Secretary has been elected, with the Company’s Managing Board responsible for organizational matters.

The meeting’s agenda shall be set by the applicant. The proposed agenda shall incorporate motions made by the Managing Board, for the consideration of the Supervisory Board. The agenda shall be announced by the Chairperson at the beginning of each Board meeting. Upon the opening, every Board member is entitled to demand additional points to be added to the agenda. Such demand shall be subject to a vote by the Board.

Board meetings shall be chaired by Chairperson of the Supervisory Board, or, in his or her absence, by the Deputy Chairperson. Minutes of the Supervisory Board meetings shall be taken. Minutes of the Board meetings shall be taken by the Board Secretary, or, in his or her absence, by another person designated by the Chairperson, or, in his or her absence, by the Deputy Chairperson.

Supervisory Board members may participate in Board meetings directly, or using remote communications devices.

Company’s Managing Board, individual Managing Board members or other persons may participate in Board meetings if invited to do so, with the exclusion of matters which relate to them personally.

Individual matters on the Board meeting’s agenda shall be presented by Board members who made the motion to have such matters included in the Board meeting’s agenda. Chairperson of the Board or a person designated by the chairperson.

Minutes of the Supervisory Board meetings shall be signed by all Board members present by the time of the following Board meeting at the latest. Resolutions shall be valid once taken up, i.e. once the vote results have been announced and the resolution is resolved to be accepted, regardless of the time of the signing of such minutes of the Board meetings. Board members may state their objections to the minutes by the next Board meeting at the latest, before signing the minutes. Objections to the content shall be made in writing.

Duration of the meeting, the number and length of breaks, amount of time allocated to speak during the discussion and other procedural matters shall be set by the Board’s Chairperson or Deputy Chairperson chairing the meeting in Chairperson’s absence.

Resolutions of the Supervisory Board shall be valid if all Board members have been invited to such meeting at least one week in advance. Supervisory Board meetings shall be valid, if at least half of all Board members, including members who participate in the meeting using direct remote communications devices, are present at such meeting.

Board Resolutions shall be taken up by a direct majority. Chairperson’s vote shall prevail if the number of votes is equal.

Resolutions of the Supervisory Board may also be taken up through a written vote, via another Board member or by using direct remote communications devices.

Chairperson of the Board sets forth the procedure through which votes of the Supervisory Board members shall be transmitted and recorded. A resolution taken up using this procedure shall be valid if all of Supervisory Board members have been notified about the draft Resolution. Each Board member shall be required to confirm his or her vote by placing his or her signature under the resolution by the next Board meeting at the latest. Transcripts of resolutions taken up by mail shall be attached to minutes of the Board meetings together with records of the vote’s results.

At least one member of the Supervisory Board designated by the Supervisory Board Chairperson shall participate in the General Meetings.
Governing bodies

Audit Committee
On December, 19 2017 the Supervisory Board appointed the Audit Committee composed of:

<table>
<thead>
<tr>
<th>First and last name</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marcin Mańdziak</td>
<td>Chairman of the Audit Committee</td>
</tr>
<tr>
<td>Michał Markowski</td>
<td>Deputy Chairman of the Audit Committee</td>
</tr>
<tr>
<td>Jakub Sitarz</td>
<td>Secretary of the Audit Committee</td>
</tr>
</tbody>
</table>

In the reporting period, the Audit Committee performed the tasks under the applicable regulations. The Audit Committee appointed as part of the Supervisory Board meets the independence criteria and other requirements specified in the Act on statutory auditors, audit firms and public supervision.

The statutory criterion of independence is fulfilled by: Marcin Mańdziak and Michał Markowski.
Michał Markowski has knowledge and skills in accounting and auditing financial statements. Michał Markowski has a degree in financial management of the undertaking from Wroclaw University of Science and Technology and is the holder of ACCA qualification.
Jakub Sitarz has knowledge and skills in the field of the Company’s operation. Jakub Sitarz has a degree in computer science from Wroclaw University of Science and Technology and has 15 years’ experience as Technology Manager at the Company.

The firm auditing the financial statement did not provide for the Company any permitted non-audit services.

Main premises of the audit firm selection policy
- The Supervisory Board selects the entity authorised to audit, acting on the grounds of the Audit Committee’s recommendation.
- It is prohibited to introduce contractual clauses that would demand that the Supervisory Board select the entity authorised to audit from among a certain category or specification of entities authorised to audit.
- Both the Audit Committee, at the stage of preparing recommendation and the Supervisory Board, while making final selection of the entity authorised to audit use the following guidelines:
  a) Confirmation of impartiality and independence of the entity;
  b) The price proposed by the entity authorised to audit;
  c) The entity’s experience in auditing financial statements of public interest entities and in auditing financial statements of other entities with a similar profile of activity;
  d) The capacity to provide the required scope of services;
  e) Professional qualifications and experience of people who will be directly involved in the audit.

Main premises of the policy of providing permitted non-audit services by the firm conducting an audit, affiliates of an audit firm and by the member of the audit firm’s network
- Without prejudice to further provisions, neither a statutory auditor, an audit firm conducting a statutory audit on the Company, an affiliate of an audit firm, nor any member of the statutory auditor’s or audit firm’s network can provide any prohibited non-audit services or services that are not a financial audit, directly or indirectly, for the Company or its affiliates.
- Prohibited services are not the services indicated in Article 136 Item 2 of the Act on Statutory Auditors.
- Provision of services referred to in Item 2 is possible only in the scope not related to the tax policy of the Company, after the Audit Committee assesses independence threats and safeguards and gives its consent.
- In justified cases the Audit Committee gives guidelines concerning services that, while being non-audit services can be ordered by the Company from the audit firm, audit firm’s affiliate or member of the audit firm’s network.

The recommendation concerning selection of an audit firm fulfils binding legal conditions and internal regulations.

Two meetings of the Audit Committee were held in the financial year ended on 31 March 2018.
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.

The contract for auditing the Company’s Financial Statements was concluded on April 9, 2018 and includes the examination of the report for the period from April 1, 2017 to March 31, 2018. The auditing company was selected by the Supervisory Board of the Company.

Detailed information on the remuneration of the entity authorized to audit the financial statements is presented in note 22 of the Consolidated Financial Statements.

Last financial year the audit firm conducted the following services for the Company: audit of the annual non-consolidated and consolidated financial statements, as well as the review and voluntary audit of the interim financial statement.

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.

Awards, distinctions and achievements
The LiveChat Software product was considered the best in its category in the ranking “The top 20 most popular Live Chat Software 2017”, prepared by Capterra. The solution also won the title of leader - in the ranking, maintained by the GetApp website.


In May 2017, LiveChat Software was among 10 companies, which the editors of the “Rzeczpospolita” daily awarded titles "The Most Dynamic Company - The Future of Polish Economy".

Also in May 2017, LiveChat Software received the SalesTech Award. The LiveChat solution was recognized as the best in the "Customer Engagement" category. SalesTech awards are intended for the best companies and technology products that support the sales process.

In April 2018, the Company took the second place in the "Rekiny Biznesu" ("Business Sharks") competition in the "Exporter 2017" category.

Information about the employment
At the end of 2017 fiscal year, the Company collaborated with with 84 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 and the smallest team is the Managing Board, Finances and Administration. The Managing Board consists of persons who have spent years working on the LiveChat project.
Other information

A description of the main features used in the Issuer’s enterprise’s internal control and risk management systems in relation to the process of preparing financial statements and consolidated financial statements.

The solutions implemented by the Issuer are to ensure completeness of financial data processing, their arithmetical correctness, as well as guarantee that operations recognized in financial statements actually occur and ensure their proper authorization.

Indication of holders of any securities that give special control rights, along with a description of these rights.

Special control rights do not exist.

Indication of any restrictions on the exercise of voting rights, such as the limitation of the exercise of voting rights by the holders of a certain part or number of votes, time restrictions on the exercise of voting rights or subscriptions, in which, with the company’s cooperation, capital rights related to securities are separated from ownership securities

Not applicable.

A description of the rules regarding appointment and dismissal of managing persons and their rights, in particular the right to decide on the issue or buyout of shares.

Members of the Management Board are appointed and dismissed by the Supervisory Board. The Issuer’s Articles of Association do not provide for the possibility of increasing the Issuer’s share capital as part of the authorized capital and the Issuer does not hold shares in authorized capital (target).

Description of the rules for changing the Issuer’s Articles of Association

The Company’s Articles of Association may be amended by way of a resolution of the General Meeting.

The manner of operation of the General Meeting and its basic powers as well as a description of shareholders’ rights and how they are exercised, in particular principles resulting from the Regulations of the General Meeting, if such regulations have been adopted, unless the information in this respect stems directly from the law.

General Shareholders Meetings of LiveChat Software S.A. are held on the basis of the Code of Commercial Companies and the Articles of Association of the company. According to the statute, the General Meeting may adopt regulations. The rules of operation of the General Meeting are governed by the Code of Commercial Companies.

The rights and obligations of the Shareholders are determined in particular by the Commercial Companies Code, the Act on Trading, the Act on Public Offering and the Articles of Association. Especially:

- the Issuer’s shareholders have the right to dispose of the Shares;
- the Issuer’s shareholders have the right to participate in the profit indicated in the annual, audited separate financial report, which will be allocated by resolution of the General Meeting to payment to the Issuer’s shareholders (right to dividend);
- the Issuer’s shareholders have the right to subscribe for the Issuer’s new issue shares in relation to the number of Shares held (pre-emptive right);
- in the event of liquidation of the Issuer, each Action entitles to a proportionate share in the distribution of assets remaining after satisfying or securing the Issuer’s creditors;
- the shareholder exercises the right to vote at General Meetings. Each Share gives the right to one vote at the General Meeting;
- the right to convene an extraordinary General Meeting shall also be vested in the Issuer’s shareholders representing at least half of the Issuer’s share capital or at least half of all votes in the Issuer;
- the Issuer’s shareholder or shareholders representing at least one-twentieth of the Issuer’s share capital may request that an extraordinary General Meeting be convened and that certain matters be placed on the agenda of such General Meeting;
- a shareholder or shareholders of the Issuer representing at least one twentieth of the Issuer’s share capital may request the placement of specific matters on the agenda of the next General Meeting;
- the Issuer’s shareholder or shareholders representing at least one twentieth of the share capital may submit to the Issuer, in writing or via electronic communication means, draft resolutions regarding matters included in the agenda of the General Meeting or matters to be included in the agenda;
- each shareholder of the Issuer has the right to demand copies of motions on issues included in the agenda of the next General Meeting; The Management Board is obliged to provide the Issuer’s shareholder, during the General Meeting, at his request with information regarding the Issuer, if it is justified for the assessment of a matter covered by the agenda of the General Meeting;
- the Issuer’s shareholders, representing at least one fifth of the share capital, have the right to request the election of the Supervisory Board by voting in separate groups;
- the Issuer’s shareholders have the right to appeal against the resolutions of the General Meeting;
- in accordance with Art. 84 of the Act on Public Offering, at the request of a shareholder or shareholders of the Issuer, holding at least 5% of the total number of votes, the General Meeting may adopt a resolution on the expert’s examination, at the expense of the Issuer, of a specific issue related to the creation of the Issuer or the conduct of its affairs.
Assessment, together with its justification, regarding the management of financial resources, with particular emphasis on the ability to meet the obligations incurred, and description of possible risks and actions that the issuer has taken or intends to take to counteract these risks.

The Management Board directly manages the risk in this area. In his opinion, the high liquidity of the Company and the lack of significant liabilities significantly minimize the risk of losing liquidity and other risks related to the management of financial resources.

Assessment of the feasibility of investment plans, including capital investments, compared to the amount of funds held, including possible changes in the financing structure of this activity.

Current investments are mainly carried out in the field of product development and are financed from own resources. The Management Board currently does not plan any other investments and changes in the financing structure.

Assessment of factors and unusual events affecting the result of operations for the financial year, with the determination of the degree of influence of these factors or unusual events on the result achieved.

The results of the financial year 2017 were not affected by atypical factors and events.

Changes in the basic rules of managing the issuer’s company and its capital group.

There were no such changes.

All contracts concluded between the issuer and the managing persons, providing for compensation in the event of their resignation or dismissal from the position held without a valid reason or if their dismissal occurs due to the merger of the issuer by acquisition.

The company does not have such agreements.

Information about the system of controlling employee share programs

Not applicable.
Application of the Corporate Governance Principles

In connection with the adoption by the Stock Exchange Council on October 13, 2015, Resolution No. 26/1413/2015 of the new set of rules under the name “Good Practices of WSE Listed Companies 2016”, the Company has been applying to the aforementioned set of corporate governance rules since January 1, 2016. All exceptions to the application of these sets of rules are described in the Report on the Company’s operations and in the report on non-compliance with the detailed rules contained in the “Good Practices of WSE Listed Companies” list available at www.livechatsoftware.pl and below. The Management Board emphasizes that during the financial year there were no instances of incidental violation of the “Good Practices” by the Company.

“Good Practices of GPW Listed Companies 2016” - the company did not apply the following principles contained in the document:
Information policy and communication with investors
I.Z.1.8. a list of selected company’s financial data for the last 5 years of operation, in a format enabling the data to be processed by their recipients, the Company does not apply the above rule.

On the current investor relations page, the Company provides the Prospectus and all periodic reports, which it publishes as a Public Company. Currently, it is working on the investor relations service, which will improve the quality of information available to investors, including the application of this principle.

I.Z.1.20. The record of the course of the general meeting, in the form of audio or video, the Company does not apply the above rule. The company has no records of the General Meeting in this form.

I.Z.2. A company whose shares are classified to WIG20 or mWIG40 stock indices ensures that its website is also available in English, at least to the extent indicated in principle I.Z.1. This principle should also be applied by companies not listed above, if it is supported by the structure of their shareholders or the nature and scope of their business. The company does not apply the above principle. Considering the interest of foreign investors in the Company, in 2016 an investor service in English was launched at investor.livechatinc.com - because the range of information available on it is not yet completely identical to the Polish website and does not cover the scope of the indicated on the principle I.Z.1. However, this does not mean full compliance with this principle.

Management and Supervisory Board

II.Z.2. Members of the company’s Management Board or Supervisory Board from outside the capital group of the company require the consent of the supervisory board. The company does not apply the above principle.

In the Issuer’s opinion, there is no need to apply this rule due to the fact that there are no entities registered in Poland the operations of which would constitute competition for the Company on the global market. At the same time, the share of members of the Management Board of the Company in its shareholding constitutes a sufficient guarantee of the full involvement of those persons in the development of the Issuer.

II.Z.3. At least two members of the supervisory board meet the independence criteria referred to in principle II.Z.4. The company does not apply the above principle.

In the Issuer’s opinion, the remaining one independent member is sufficient to ensure proper control exercised by the Supervisory Board. In addition, the composition of the Supervisory Board reflects the current composition of the Issuer’s shareholders.

II.Z.7. Within the scope of tasks and functioning of committees operating on the supervisory board, the provisions of Annex I to the Recommendation of the European Commission apply, referred to in principle II.Z.4, apply. In the event that the function of the audit committee is performed by the supervisory board, the above rules shall apply accordingly. The company does not apply the above principle.

The Issuer does not plan to appoint a nomination committee, a remuneration committee or a review committee within the Supervisory Board. In the Issuer’s opinion, due to its nature, the type of activity carried out, in particular employed persons and the lack of employed employees based on a contract of employment, it is not necessary to appoint a nomination committee, remuneration committee and audit committee.

II.Z.8. The chairman of the audit committee meets the independence criteria indicated in principle II.Z.4. The company does not apply the above principle.

The Audit Committee is composed of a Supervisory Board member who meets the independence criteria, but does not act as the Chairman of the Audit Committee.

General meeting and relations with shareholders

IV.Z.2. If it is justified due to the company’s shareholder structure, the company provides a universally available broadcast of the general meeting in real time. The company does not apply the above principle.

In the Issuer’s opinion, the current shareholding structure and historical interest of Shareholders in participation in the General Meeting does not justify the costs of such a transmission. The Management Board will monitor the situation in the future and does not exclude the decision to start such transmissions.
Statements made by the Management Board

Wrocław, June 18, 2018

The consolidated financial report of LiveChat Software Capital Group for the fiscal year ended March 31, 2018, has been approved for publication by the Managing Board on June 18, 2018.

Chief Executive Officer Mariusz Ciepły

Board Member Urszula Jarzębowska

Wrocław, June 18, 2018

The individual financial report of LiveChat Software, for the fiscal year ended March 31, 2018, has been approved for publication by the Managing Board on June 18, 2018.

Chief Executive Officer Mariusz Ciepły

Board Member Urszula Jarzębowska
Statements made by the Management Board

Wrocław, June 18, 2018

Statement made by the Management Board on the reliability of preparation of the annual unconsolidated financial statements of LiveChat Software for the fiscal year ended March 31, 2018

The Management Board of LiveChat Software S.A. hereby declares that, to the best of its knowledge, the annual unconsolidated financial statements of LiveChat Software S.A. for the fiscal year ended March 31, 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 Ciepły

Board Member Urszula Jarzębowska

Wrocław, June 18, 2018

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Chief Executive Officer Mariusz Ciepły

Board Member Urszula Jarzębowska
Statements made by the Management Board

Statements on audit firm examining the financial statements

Wrocław, July 30, 2018

Statement made by the Management Board on the auditing company examining the annual unconsolidated financial statements of LiveChat Software S.A. for the fiscal year ended March 31, 2018.

The Management Board of LiveChat Software S.A., based on the statement of the Supervisory Board of LiveChat Software S.A., informs that the auditing company examining the annual unconsolidated financial statements of LiveChat Software S.A. for the fiscal year ended March 31, 2018, namely HLB M2 Spółka z ograniczoną odpowiedzialnością AUDIT PIE Sp. k., seated in Warsaw at 47 Rakowiecka Street apt. 21, has been chosen in accordance with the provisions of the law in force.

The auditing firm and the members of the audit team satisfied the conditions for preparing an impartial and independent audit report on the annual financial statements in accordance with applicable regulations, professional standards and professional ethics.

The Company complies with the applicable regulations related to the rotation of the auditing firm and the key certified auditor and mandatory grace periods.

The Company has a policy regarding the selection of an auditing firm and a policy for providing for the issuer additional non-audit services, including services exempt from prohibiting the audit firm by an auditing company, an entity related to the auditing firm or a member of its network.

Chief Executive Officer Mariusz Ciepły

Board Member Urszula Jarzębowska

Wrocław, July 30, 2018

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Chief Executive Officer Mariusz Ciepły

Board Member Urszula Jarzębowska
Wrocław, June 18, 2018


All exceptions to the application of these sets of rules are described in the Report on the operations of the Company and in the report on non-compliance with the detailed rules contained in the “Good Practices of WSE Listed Companies” list available at www.livechatsoftware.pl.

Chief Executive Officer Mariusz Ciepły

Board Member Urszula Jarzębowska

Wrocław, June 18, 2018


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Chief Executive Officer Mariusz Ciepły

Board Member Urszula Jarzębowska
Statements made by the Supervisory Board

Statements on Audit Committee

Wrocław, July 31, 2018

Statement of the Supervisory Board concerning the Audit Committee

The Supervisory Board of LiveChat Software S.A. declares that the Company follows the provisions concerning appointment, composition and functioning of the Audit Committee, including its members fulfilling the criterion of independence and requirements to have knowledge and skills in the field of the issuer’s operation, as well as in accounting or auditing financial statements.

The Audit Committee, appointed as part of the Supervisory Board, performed the tasks of an audit committee required under legislation in force.

Chairman of the Supervisory Board Maciej Jarzębowski

Wrocław, July 31, 2018

Statement of the Supervisory Board concerning the Audit Committee

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Chairman of the Supervisory Board Maciej Jarzębowski
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<th>Ratio</th>
<th>Description</th>
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<td>Operating profit (loss) + depreciation and amortization</td>
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<tr>
<td>Gross sales margin</td>
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<td>EBITDA margin</td>
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<td>Return On Equity (ROE)</td>
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