LiveChat Software

Management Board Report of the activities of LiveChat Software S.A. and its Group in H1 2020/21 fiscal year
Customer communication without barriers
Help people and business communicate better and fully express themselves
Operating summary

Commentary of the Management Board

In the first half of 2020/21 financial year, we achieved consolidated revenues of PLN 84.7 million and a consolidated net profit of PLN 46.4 million. Standalone net profit of LiveChat Software S.A. amounted to PLN 46.3 million.

These results are both the effect of an increase in the number of customers purchasing our solutions and a higher ARPU (average monthly revenue per user). The increase in this ratio is attributable to many factors, including changes in the LiveChat pricing model and the introduction of new ChatBot subscriber plans in January 2020.

The charts presented next to the text illustrate the ARPU ratio and the average selling price for LiveChat and ChatBot products. Both indicators are measured based on the MRR (Monthly Recurring Revenue). The average ARPU for LiveChat calculated in this manner was USD 107 in Q1 and USD 111 in Q2 of the financial year. The ARPU for ChatBot was USD 68.0 and USD 76.8, respectively. It should be noted that in both cases the increase in ARPU is maintained in each subsequent month.

Greater volatility is observed in the average selling price but it remains well above the levels of the previous year. The average selling price is the initial ARPU in the group of customers who started using our solutions in a specific month.

From mid-March 2020, the global pandemic has had a significant but hard to measure impact on our business. Unfortunately, the lockdown and other effects of the pandemic translated into business problems for many LiveChat customers. Therefore, in April we recorded a very high level of the churn rate at approx. 4.5%. However, in the following months, the churn rate dropped to levels slightly above the historical average of approx. 3% per month.

In the first quarter of the financial year, we recorded a very high inflow of new customers who were looking for effective online communication solutions. It was accompanied by a trend of high upselling to existing customers who were using our products more intensively. In the summer months, the number of LiveChat and ChatBot customers continued to grow, although we recorded lower monthly net increases compared to the previous months. In the second quarter, however, we recorded very good results in terms of upselling.

In the first half of 2020/21, we continued number of development projects aimed to improve our products, introduce new functions, and integrate them with other communication channels. We also added some applications offered by third-party developers to our "marketplace", such as integration with SnapCall products (voice solution) or 2way (communication via SMS).
Operating summary

Commentary of the Management Board

In March, LiveChat Software itself completely switched to remote work. In July this year, we reopened our office while introducing number of measures and precautions. Unfortunately, as the situation in Poland has worsened, we decided to close the office again in October.

Nevertheless, we are very satisfied with the effects, especially the efficiency, of remote work. As early as in the summer, we announced that we still prefer the remote work model and encourage our associates to make the most of it.

Intensive development work and increasing the number of associates have not prevented us from keeping margins at a very high level. The gross margin on sales in the period between April and September 2020 was 82.8% and the net margin was 54.8%. Cash flows from operating activities amounted to PLN 48.0 million, and at the end of six months, we held PLN 31.1 million in cash funds.

The recognition of the impact of IP Box tax relief had a significant impact on the presented results already for the first half of the year. In the previous financial year, we presented this impact in full in the annual financial statements. The impact of the IP Box relief on the consolidated net profit in the first half of the financial year was PLN 6.2 million. In the second quarter of the fiscal year, we also recorded a negative effect of the settlement of the impact of exchange rate differences (visible in prime costs of sale), which amounted to PLN 2.9 million and significantly influenced the margins in the second quarter. In the previous quarters, this effect did not occur or was of marginal importance and we currently assume that it will not be repeated on a similar scale in the future.

„LIVECHAT FOR NONPROFITS“

The Company supports non-governmental organisations from around the world by making its products available to them free of charge. At the end of September 2020, 193 organisations from around the world were registered in the “Care to Chat” program. They used 1,661 agents who (since the program’s inception) conducted over half a million chats. The organisations supported in this way by LiveChat include: the Movember Foundation, the Lifeline Children Services and the National Multiple Sclerosis Society.
Operating summary

Selected consolidated financial data

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>H1 2020/21</th>
<th>H1 2019/20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales of products, goods and materials</td>
<td>84 738 237</td>
<td>62 496 575</td>
<td>+35.6%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>54 304 448</td>
<td>41 204 403</td>
<td>+31.8%</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>49 690 731</td>
<td>38 568 952</td>
<td>+28.8%</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>49 656 123</td>
<td>38 606 321</td>
<td>+28.6%</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>46 439 163</td>
<td>31 082 343</td>
<td>+49.4%</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>-7 546 241</td>
<td>-9 900 820</td>
<td>-</td>
</tr>
<tr>
<td>cash flow from operating activities</td>
<td>48 003 867</td>
<td>31 712 525</td>
<td>+51.4%</td>
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<tr>
<td>cash flow from investing activities</td>
<td>-6 723 717</td>
<td>-5 302 520</td>
<td>-</td>
</tr>
<tr>
<td>cash flow from financial activities</td>
<td>-48 826 391</td>
<td>-36 310 826</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>Profit (loss) per ordinary share</td>
<td>1.80</td>
<td>1.21</td>
<td>+48.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>At September 30, 2020</th>
<th>At March 31, 2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>85 498 224</td>
<td>87 628 815</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Liabilities and provisions</td>
<td>9 045 136</td>
<td>8 948 152</td>
<td>+1.1%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>1 034 023</td>
<td>2 338 711</td>
<td>-17.3%</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>7 111 113</td>
<td>6 609 441</td>
<td>+7.6%</td>
</tr>
<tr>
<td>Net equity</td>
<td>76 453 088</td>
<td>78 680 663</td>
<td>-2.8%</td>
</tr>
<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>2.97</td>
<td>3.06</td>
<td>-2.8%</td>
</tr>
</tbody>
</table>
Operating summary

Key Events

On June 5, 2020, LiveChat Software announced that the number of active and paying clients of the LiveChat solution exceeded 30 thousand. As of the end of the calendar year 2019, the Company had 28,620 paying LiveChat clients. As of the end of the 2019/2020 financial year (31 March 2020), the number of clients reached 28,784. At the end of the first quarter of the calendar year 2020/2021, the number of LiveChat clients grew to 30,391.

At the end of the 1st quarter, ChatBot had 1,350 active and paying clients, as compared with 1,108 at the end of the previous quarter and 660 one year earlier.

On August 11, the Supervisory Board of LiveChat Software decided on the composition of the Management Board for the next term (2020–2023). The Supervisory Board appointed Mr Mariusz Cieply and Ms Urszula Jarzębowska into the Management Board. At the same time, Mariusz Cieply was appointed the Board President, and Ms Urszula Jarzębowska became a Board Member.

An Ordinary General Meeting was held on August 18, resulting in particular, in the decision on the distribution of profit for the financial year 2019/2020. Following a proposition of the Management Board approved by the Supervisory Board, the unconsolidated profit of LIVECHAT Software, which amounted to PLN 75,828,987.97, was divided as follows:

- PLN 11,968,987.97 for the supplementary capital of the Company;
- PLN 63,860,000.00 for the dividend paid to the shareholders, which means that the amount of dividend per share was PLN 2.48 (including the advance dividend payment made in January 2020 and the second advance dividend payment paid in August 2020 – the amount of the first payment as well as the second payment was PLN 0.60 per share.).

The dividend covered 25,750,000 shares of the Company.

The date for the determination of shareholders entitled to receive dividend was specified as August 25, 2020, and the date of payment of the dividend – September 1, 2020, when the remaining PLN 1.28 per share was paid out.

IMPACT OF THE PANDEMIC ON THE COMPANY’S SITUATION

Due to the outbreak of the pandemic and the epidemiological situation in Poland, the Company has implemented a home office working model as of the week March, 9-15. The Management Board believes that it has not adversely affected the continuity and quality of the provided services or ongoing development work. According to the survey conducted amongst the personnel of the Company, most of them prefer working remotely or in the mixed mode (flexible working style).

In July, the Company reopened the office at ul. Zwycięska in Wroclaw, implementing various restrictions and precautionary measures. It also informed the personnel that home office would be the preferred working model.

The Company uses various tools that support remote work. Using online solutions, it also implements many projects aimed at innovation (Side Project Day), personnel self-improvement (LiveChat Academy) and supporting teamwork.

The Company has not made any redundancies due to the pandemic. On the contrary, it implemented a model for efficient remote recruitment.

Dividend paid

(PLN per share)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend paid (PLN per share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>0.37</td>
</tr>
<tr>
<td>2014/15</td>
<td>0.71</td>
</tr>
<tr>
<td>2015/16</td>
<td>1.08</td>
</tr>
<tr>
<td>2016/17</td>
<td>1.41</td>
</tr>
<tr>
<td>2017/18</td>
<td>1.77</td>
</tr>
<tr>
<td>2018/19</td>
<td>1.95</td>
</tr>
<tr>
<td>2019/20</td>
<td>2.48</td>
</tr>
</tbody>
</table>
Rebranding

In April, LiveChat Software presented the new logos of its products: LiveChat, ChatBot, KnowledgeBase and HelpDesk. They are unified by their graphical style, which emphasizes their mutual compatibility and the fact that they have been designed by the same team. The “speech balloon” is an allusion to the iconic LiveChat logo designed in 2002.

The Company has always preferred simplicity, both in communication and in the visual aspect. Presently, it also emphasizes the connections between the individual products – all of them are a part of the ecosystem built by LiveChat Software. The companies that use them can easily integrate the individual products to enhance their performance and provide the best possible support to their own customers.

The new logos represent a major change, but that change is a part of the broader marketing strategy of LiveChat Software. In recent years, the Company has been acquiring domains relevant to its business – it now owns the websites corresponding to the individual products: www.livechat.com, www.chatbot.com, www.helpdesk.com and www.knowledgebase.ai.
Organization

**Structure of LiveChat Software Capital Group**

LiveChat Software S.A. is a parent company which consists of itself and its fully owned US subsidiary LiveChat, Inc. which is subject to full consolidation.

The Company has no branch offices.

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**LiveChat Software organization structure**

In May 2020, the number of so-called "CXOs" (Chief Officer), i.e. heads of departments reporting directly to the CEO, was increased.

CTO (Chief Technology Officer), COO (Chief Operating Officer), CMO (Chief Marketing Officer), CCO (Chief Creative Officer) and CFO (Chief Financial Officer) were joined by CPO (Chief Product Officer) and CPO (Chief Personnel Officer). Therefore, the Company's organizational structure has been flattened – importantly, it is people who have been with LiveChat for a long period of time who got promoted.

Investor relations department also reports directly to the CEO.
Description of the activities of LiveChat Software Group

**Strategy**

We are distinguished by the fact that we feel responsible for the quality of communication on both sides of this process. We support companies in more effective communication, but our goal is also to provide the best experience and improve the quality of services for millions of people who use our solutions every day.

**Product and services**

The products and services we provide are to meet all of our client’s communication needs. In the current environment, it is not the brand but the customer that dictates the rules of communication. Our products enable contact with the company at a time and place he chooses through any communication channel and freely express himself and his emotions. We will also be able to maximize the number of interactions carried out through our solutions.

**Target markets**

Our clients are companies of all sizes representing all industries. One of our significant competitive advantages is a very effective, automated sales process for small and medium-sized companies.

We intend to maintain this advantage while focusing on medium-sized companies. Maintaining a strong position in the small business segment will help us generate new leads. Increasing the number of corporate clients will translate into increased predictability of our business and its even greater stability. We believe that we have the technological and organizational capabilities needed to provide services for this market segment. Despite this, further work is required in order to adapt products, marketing, and build a sales department to achieve this goal.

We offer our clients not only technological solutions but also our expert knowledge accumulated thanks to 18 years of supporting online communication.

We focus on the US market, which is the largest for us in terms of sales value and future growth potential, but also sets trends for the entire industry.

**Economies of Scale**

Our solutions are used by thousands of companies and millions of end-users. It gives us data and experience that we use for further growth - development of our current products and designing new ones. We focus on implementing projects with the highest potential.

**Focus on data**

Looking for opportunities for further growth, we will rely on available data and invest in their analysis.

**Open Infrastructure and products**

Our products are to be open and easy to integrate with other solutions provided by external suppliers. Even our API (Application Programming Interface) becomes a product in itself.
**Description of Group’s activities**

LiveChat Software is a developer and a global provider of LiveChat software. Its corporate portfolio includes also solutions such as ChatBot (a chatbot building platform), HelpDesk (ticketing system) and KnowledgeBase (a knowledge base application).

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

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

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

LiveChat Software also runs a number of other projects, whose joint trait is the potential to accelerate customer acquisition growth rate. Its solutions are dedicated to business users from all industries. At present, IT companies account for the greatest number of clients. Other large sectors represented among clients include retailing, education, marketing, gaming and gambling, automotive, entertainment, financial services, health care and tourism.
Description of the activities of LiveChat Software Group

**LiveChat**

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

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

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

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

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

**LiveChat**

**LiveChat as a communication platform**

The idea to change the direction of the LiveChat product development is a response to the growing number of individual user requirements for applications. In order to meet and exceed customer expectations, LiveChat Software builds an ecosystem around its solution.

Changing the business model to the platform, in the long run, will accelerate the development of solutions created by the Company, as well as facilitate the introduction of new functionalities to them. The platform enables the creation and sharing of new functions not only by the Company’s workers, but also by external units (developers, software companies, partners, and users themselves). Thanks to the platform and the tools made available on it, everyone from outside the Company has the opportunity to create their own extension or application based on the LiveChat product technology. In this way, it is possible to introduce solutions that are not in the product, and which are crucial for a given user.

The platform around the LiveChat solution consists of closely related parts. The first one is the Development Console, on which the Company provides appropriate tools (instructions, API documentation, code examples), thanks to which it is possible to create plugins and extensions. The next part is the Marketplace, which is the "place" where all the created products are stored and made available to users of the LiveChat product (in paid and free versions). The third part is the community of all its participants, as well as the Company’s clients, built around the platform. The goal of the community is to exchange experiences, jointly create applications and establish mutual relations.

The main benefits of product development in the platform model are that the solutions become more flexible, which makes it possible to almost freely adjust their functionality to the users’ requirements. This makes the user’s relationship with the product stronger, making it harder for him to give up using it. The platform also allows you to discover previously unknown use cases of a given solution and share these experiences.

In May 2020, the value of monthly revenues from the sale of applications made available in the Company’s marketplace by external partners exceeded the level of 10 thousand USD.
Description of the activities of LiveChat Software Group

ChatBot

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

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

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

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

ChatBot is sold without the use of a dedicated sales team. The Company is promoting its solutions using cost-free methods, growing its user base organically. The solution is on the market since June 2017 (as an open beta version, as a complete product since February 2018). Its clients include Boston University, UEFA, Kayak, Calgary or Velux.

For more information about the product, please visit https://www.chatbot.com
Description of the activities of LiveChat Software Group

**HelpDesk**

HelpDesk is a solution that is supposed to support business communication with the client through various channels. In particular, HelpDesk helps to manage the so-called “Tickets”, i.e. matters reported by clients via various text communication channels (e.g. mail, live chat).

The product will be systematically expanded, and its vision ultimately assumes as much automation of such processes as possible. The functions offered by HelpDesk will include support for teamwork, grouping and tagging of tickets, assessment of consumer satisfaction, as well as reporting and data analysis. HelpDesk will be a competitive solution for such products as Zendesk, FreshDesk, ZOHO Desk, HappyFox, or HelpScout and will constitute a valuable complement to the Company’s offer.

The commercial première of the HelpDesk had place on May 2019. The product is offered through helpdesk.com and has its first paying customers.

For more information about the product please see https://www.helpdesk.com
Description of the activities of LiveChat Software Group

KnowledgeBase.ai

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

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

For more information about the product please see https://www.knowledgebase.ai
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**
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 licence, e.g. ChatBot 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

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 2019 public cloud was worth USD 242.7 bn, including the SaaS segment worth more than USD 100 bn. It is estimated that by 2022 both markets will increase in value, to USD 364.1 bn and USD 140.6 bn 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

It is difficult to give a fully reliable estimate of the size of the market for live chat solutions because there are many suppliers which do not publish financial data, many free or freemium solutions, or solutions sold together with other services.

According to data published by Datanyze, a research company, there are more than 200 different technologies on the live chat market. A substantial part of suppliers offers their solutions in the freemium model. In the assessment of the Management Board of LiveChat Software, monetisation of clients which started to use free services is a very difficult and ineffective process. The "LiveChat" solution is distinguished by, among other things, the number of available functionalities, options and integration capabilities. A matter of paramount importance is also customer service, which largely exceeds capabilities of the majority of other suppliers.

Therefore, free solutions are not treated as direct competition because LiveChat is addressed to more demanding client with greater and more advanced needs, both in terms of available service functions and speed and efficiency of support provided by customer service.

The forefront of global suppliers of live chat solutions is relatively stable. Apart from LiveChat Software, it includes LivePerson or Zendesk Chat. Other major live chat solutions available on the market are Intercom, Drif, Olark, JivoChat, Tidio, or Tawk.to (free model). There is also the Facebook Customer Chat Plugin solution. However, in the assessment of the Company its direct competitors in the premium segment are mostly Zendesk and Intercom.

In 2018, the Company extended its offer by introducing the ChatBot solution which allows for automation of communication with clients. Forecasts and assessments relating to the value of that market differ a lot. According to the report by Kenneth Research, the value of the “Conversational Artificial Intelligence” market which includes, among other things, virtual assistants and chatbots, is going to grow by 30% on an annual average during the years 2019-2024 and achieve the value of 15.8 billion dollars at the end of the period. However, according to the forecast by Grand Review Research, the value of the chatbot market only is going to reach 1.25 billion dollars in 2025 (assuming the annual average growth of 24%).
Description of the activities of LiveChat Software Group

Information about the agreements signed

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

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

Agreements which are material for the Group’s activities

Information about material transactions with related parties

**Agreement with LiveChat, Inc.**

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

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

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

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

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

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

In the reported period, the Company concluded transactions with a consolidated entity LiveChat, Inc. As a result, the following balance sheet and result categories appeared:

- Receivables from LiveChat, Inc. in the amount of PLN 2,385,375.39;
- Obligations to LiveChat, Inc. in the amount of 0.00 PLN;
- Sales revenues to LiveChat, Inc. in the amount of PLN 84,539,631.88;
- Costs of services purchased from LiveChat, Inc. in the amount 15,773,038.82 PLN.

The above transactions were excluded in the consolidated financial statements.

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, 2020 to September 31, 2020.

**Loans granted**

The Company has not made any loans.

**Guarantees made or received**

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

**Insurance agreements**

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

**Description of ongoing court or administrative proceedings**

The Group has not been a party of any court or administrative proceedings during the reporting period.
Description of the activities of LiveChat Software Group

Growth prospects

Market growth prospects

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

Group’s growth strategy

Product development

The Company’s development strategy is based on making continuous, balanced investments into further development of the LiveChat product, especially:

a) functional development of the application;

b) new channels of communication:
   - development of ticketing system consisting in collection of information from various channels with the customer to one customer service system; this function will help client to further improve the quality of the customer-seller relationship and ultimately increase in sales;
   - mobile systems
   - social media
   - integrated communicator

c) Tools for larger enterprises, so called data driven

Building a business ecosystem around products launched on the market

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

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

Increase in the customer base

The Company is foreseeing further 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.

Acquisitions

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

Factors affecting the Company’s results

In the longer perspective, Company results will be affected primarily by the situation of the global e-commerce and SaaS market. The USD / PLN exchange rate also may affect the reported results of the company, similarly as the fiscal policy of Poland.
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 few factors related to the development prospects of the global Internet network, e-commerce sector, Software as a Service segment (SaaS), and in particular demand for sales support solutions and relations with a live chat customer.

The increasing popularization 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 maximizing conversions, that is of the situation in which the greater number of visits to their websites lead to an actual transaction. Implementation of a live chat solution clearly contributes to improving conversions. Live chat solutions are very competitive in terms of efficiency and cost as compared to traditional methods of customer contact.

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

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

Risks related to the Group’s operations

Exchange rate risk

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

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

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

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

Risk related to competition

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

There is a risk of the emergence of a more innovative or more cost-effective solution on the market and the risk of significantly higher resources being applied by competitors to promote available solutions or enter the market of entities with access to a wider customer base. There is also a risk that the Company will not be able to respond quickly and effectively to the changing market environment, and consequently the solutions offered may be considered less competitive and the Company may lose its competitive position. Such a situation may have a negative impact on the sale of the Company’s products and services and, as a consequence, on the financial performance.
Description of the activities of LiveChat Software Group

Growth prospects

**Risks related to the Group’s operations**

**Risk related to product distribution channels and reaching new customers**

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

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

Currently, due to the acquisition of customers through free activities and at the same time related to the long-term building of coverage, relations and image, the Company has no direct control over the number of customers acquired in specific months.

**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.

**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.

**Risk related to product concentration**

LiveChat Software generates most of the 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.

**Risk of loss of customers**

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

**Risk related to contracts concluded with customers**

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

Growth prospects

Risks related to the Group’s operations

Reputational risk

The effectiveness of LiveChat Software’s operations and the ability to compete on the market is to a large extent related to the good reputation of the Company and the services it offers. The Issuer notices the possibility of appearance of a 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 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 favored 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 defense costs or expenditures related to the settlement or payment of the compensation demanded by the Company. It should be noted that the above risk is not a risk characteristic only for the Issuer, but also applies to a wide range of entities operating in the field of new technologies.
Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group’s operations

Risk associated with the creation of intellectual property

There is a risk related to the legal form on the basis of which the team members provide services to the Company in the area related to the creation of intellectual property. At the time of drafting this 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 programs 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 programs) 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.

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.
Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group’s operations

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

Financial instruments in the area of price and credit risk, significant distortions of cash flows and loss of financial liquidity to which the entity is exposed
The company does not use financial instruments to limit the above risks.

The adopted financial risk management objectives and methods, including the methods of securing significant types of planned transactions for which hedge accounting is applied.
The company does not apply hedge accounting.

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

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

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

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

Presentation of consolidated results

Income statement

<table>
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<tr>
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<th>H1 2020/21</th>
<th>H1 2019/20</th>
<th>Change</th>
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<tbody>
<tr>
<td>Sales</td>
<td>84 738 237</td>
<td>62 496 575</td>
<td>+35.6%</td>
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<tr>
<td>Costs of goods sold</td>
<td>14 582 525</td>
<td>8 953 531</td>
<td></td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>70 155 712</td>
<td>53 543 043</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>14 961 830</td>
<td>8 476 827</td>
<td></td>
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<tr>
<td>General management and administration</td>
<td>5 447 605</td>
<td>6 498 202</td>
<td></td>
</tr>
<tr>
<td>Profit (loss) on sales</td>
<td>49 746 277</td>
<td>38 568 013</td>
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<tr>
<td>Other operating income</td>
<td>14 974</td>
<td>6 975</td>
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<tr>
<td>Other operating expenses</td>
<td>70 520</td>
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<tr>
<td>Operating profit (loss)</td>
<td>49 690 731</td>
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<td>Financial income</td>
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<tr>
<td>Financial expenses</td>
<td>38 986</td>
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<td>Profit (loss) before tax</td>
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<td>Income tax</td>
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<td>7 523 889</td>
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<tr>
<td>Net profit (loss)</td>
<td>46 439 163</td>
<td>31 082 343</td>
<td>+49.4%</td>
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Commentary on the factors influencing the results

The negative exchange rate differences of PLN 2.9 million had a significant impact on the net profit recorded in the second quarter of the financial year. It results from the difference between the USD / PLN exchange rate from the sales invoice issued by LiveChat Software S.A. to LiveChat, Inc. and the rate for the relevant item at the end of the period. The described effect will occur in subsequent periods, but the Company assumes that its scale will be significantly smaller.

The negative effect of the settlement of exchange rate differences, treated as a one-off event, amounted to PLN 2.9 million and is visible in cost of the goods sold. “Normalized” results, without this impact, would be:
- Gross profit on sales: PLN 73.0 million
- Operating profit: PLN 52.5 million
- EBITDA: PLN 57.2 million

The tax relief resulting from the IP Box program also has had an impact on the net profit in the first half of 2020/21. Tax savings resulting from the use of this program in relation to revenues from our applications amounted to PLN 6.2 million. As a result, the effective tax rate in the first half of the financial year was 6.5%.
Financial situation of LiveChat Software Group
Presentation of consolidated results

Balance sheet - assets

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2020</th>
<th>March 31, 2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed real assets</td>
<td>27 354 694</td>
<td>26 528 261</td>
<td>+5.7%</td>
</tr>
<tr>
<td>Intangible and legal assets</td>
<td>3 914 228</td>
<td>4 321 082</td>
<td></td>
</tr>
<tr>
<td>Long-term receivables</td>
<td>181 915</td>
<td>181 915</td>
<td></td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>233 179</td>
<td>145 902</td>
<td></td>
</tr>
<tr>
<td>Long-term prepayments</td>
<td>3 266 291</td>
<td>1 894 240</td>
<td></td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td>50 547 918</td>
<td>54 557 415</td>
<td>-7.3%</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Receivables for goods and services sold</td>
<td>677 097</td>
<td>485 832</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>18 607 355</td>
<td>15 329 346</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>31 135 523</td>
<td>38 681 765</td>
<td></td>
</tr>
<tr>
<td>Short-term prepayments</td>
<td>127 943</td>
<td>60 472</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>85 498 224</td>
<td>87 628 815</td>
<td>-2.4%</td>
</tr>
</tbody>
</table>

Liquid assets predominate in the structure of company’s assets. Liquidity ratios continue to stay at very high levels.

The Group has no capital or other investments aside from cash on bank accounts.
Financial situation of LiveChat Software Group
Presentation of consolidated results

### Balance sheet - liabilities

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2020</th>
<th>March 31, 2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Own equity</strong></td>
<td>76 453 088</td>
<td>78 689 663</td>
<td>+8.7%</td>
</tr>
<tr>
<td>Initial equity</td>
<td>515 000</td>
<td>515 000</td>
<td></td>
</tr>
<tr>
<td>Supplementary capital</td>
<td>28 547 392</td>
<td>16 578 404</td>
<td></td>
</tr>
<tr>
<td>FX differences</td>
<td>-75 961</td>
<td>180 777</td>
<td></td>
</tr>
<tr>
<td>Advance payment for a dividend</td>
<td></td>
<td>-15 450 000</td>
<td></td>
</tr>
<tr>
<td>Unallocated equity from the previous years</td>
<td>1 027 494</td>
<td>737 638</td>
<td></td>
</tr>
<tr>
<td>Net profit (loss) for the fiscal year</td>
<td>46 439 163</td>
<td>76 118 844</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities and provisions</strong></td>
<td>9 045 136</td>
<td>8 948 152</td>
<td>+1.1%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income tax</td>
<td>1 934 023</td>
<td>2 338 711</td>
<td></td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td></td>
<td>424</td>
<td></td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>1 934 023</td>
<td>2 338 287</td>
<td></td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>7 111 113</td>
<td>6 609 441</td>
<td></td>
</tr>
<tr>
<td>Current income tax</td>
<td>6 023 373</td>
<td>4 855 563</td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>97 880</td>
<td>687 329</td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>175 321</td>
<td>239 891</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>85 498 224</td>
<td>87 628 815</td>
<td>-2.4%</td>
</tr>
</tbody>
</table>
Financial situation of LiveChat Software Group
Presentation of consolidated results

**Cash position**

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>H1 2020/21</th>
<th>H1 2019/20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross profit (loss)</strong></td>
<td>49 656 123</td>
<td>38 606 231</td>
<td></td>
</tr>
<tr>
<td>Total adjustments, including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-1 652 256</td>
<td>-1 6893 706</td>
<td></td>
<td>+37.0%</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4 613 718</td>
<td>2 635 451</td>
<td></td>
</tr>
<tr>
<td>Income tax paid</td>
<td>-3 806 399</td>
<td>-10 135 429</td>
<td>+37.0%</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>48 003 867</td>
<td>31 712 525</td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>564</td>
<td>40 605</td>
<td></td>
</tr>
<tr>
<td>Investments in intangibles and in real fixed assets</td>
<td>-6 412 176</td>
<td>-5 343 124</td>
<td>+37.0%</td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td>-6 723 717</td>
<td>-5 302 520</td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-48 410 000</td>
<td>-36 307 500</td>
<td>+37.0%</td>
</tr>
<tr>
<td><strong>Net cash flow from financing activities</strong></td>
<td>-48 826 391</td>
<td>-36 310 826</td>
<td></td>
</tr>
<tr>
<td><strong>Total net cash flow</strong></td>
<td>-7 546 241</td>
<td>-9 900 820</td>
<td>-23.8%</td>
</tr>
<tr>
<td>Cash at the beginning of the period</td>
<td>38 681 765</td>
<td>32 624 369</td>
<td></td>
</tr>
<tr>
<td><strong>Cash at the end of the period</strong></td>
<td>31 135 523</td>
<td>22 273 549</td>
<td>+37.0%</td>
</tr>
</tbody>
</table>
Financial situation of LiveChat Software Group

Presentation of consolidated results

Dividend policy
In accordance with the current dividend policy described in the Company’s Prospectus, the Management Board of LiveChat Software S.A. recommended to the General Meeting the payment of the maximum (in accordance with applicable regulations) part of the profit for the previous financial year in the form of a dividend.

The Management Board, with the consent of the Supervisory Board, is entitled to make decisions regarding the payment of advances against the expected dividend.

Description of the significant off-balance sheet items
The Group does not have any significant off-balance sheet items.

Financial forecast
Managing Board of the Company has not published financial projections for the fiscal year 2020/21.

Basic ratios
The table below presents key operational Groups’ indicators:

<table>
<thead>
<tr>
<th></th>
<th>H1 2020/21</th>
<th>H1 2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit margin</td>
<td>82.8%</td>
<td>85.7%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>64.1%</td>
<td>65.9%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>58.6%</td>
<td>61.7%</td>
</tr>
<tr>
<td>Net margin</td>
<td>54.8%</td>
<td>49.7%</td>
</tr>
</tbody>
</table>
Financial situation of LiveChat Software Group
Presentation of separated results

<table>
<thead>
<tr>
<th>Income statement</th>
<th>H1 2020/21</th>
<th>H1 2019/20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>84 738 237</td>
<td>62 496 575</td>
<td>+35.6%</td>
</tr>
<tr>
<td>Costs of goods sold</td>
<td>11 732 540</td>
<td>8 935 978</td>
<td></td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>73 005 697</td>
<td>53 560 596</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>15 115 713</td>
<td>8 501 446</td>
<td></td>
</tr>
<tr>
<td>General management and administration</td>
<td>5 477 902</td>
<td>6 613 909</td>
<td></td>
</tr>
<tr>
<td>Profit (loss) on sales</td>
<td>52 412 082</td>
<td>38 445 242</td>
<td></td>
</tr>
<tr>
<td>Other operating income</td>
<td>14 974</td>
<td>6 975</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>70 520</td>
<td>6 036</td>
<td></td>
</tr>
<tr>
<td><strong>Operating profit (loss)</strong></td>
<td><strong>52 356 536</strong></td>
<td><strong>38 446 181</strong></td>
<td>+36.2%</td>
</tr>
<tr>
<td>Financial income</td>
<td>4 378</td>
<td>40 605</td>
<td></td>
</tr>
<tr>
<td>Financial expenses</td>
<td>2 888 971</td>
<td>20 879</td>
<td></td>
</tr>
<tr>
<td>Profit (loss) before tax</td>
<td>49 471 943</td>
<td>38 465 907</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>3 216 959</td>
<td>7 532 889</td>
<td></td>
</tr>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td><strong>46 254 983</strong></td>
<td><strong>30 942 018</strong></td>
<td>+49.5%</td>
</tr>
</tbody>
</table>
## Financial situation of LiveChat Software Group

**Presentation of separated results**

### Balance sheet - assets

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2020</th>
<th>March 31, 2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td><strong>32 203 410</strong></td>
<td><strong>29 908 112</strong></td>
<td>+7.7%</td>
</tr>
<tr>
<td>Fixed real assets</td>
<td>27 354 694</td>
<td>26 528 261</td>
<td></td>
</tr>
<tr>
<td>Intangible and legal assets</td>
<td>1 165 675</td>
<td>1 156 138</td>
<td></td>
</tr>
<tr>
<td>Long-term receivables</td>
<td>181 915</td>
<td>181 915</td>
<td></td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>233 179</td>
<td>145 902</td>
<td></td>
</tr>
<tr>
<td>Long-term prepayments</td>
<td>3 499 479</td>
<td>3 139 032</td>
<td></td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td><strong>49 108 453</strong></td>
<td><strong>53 163 887</strong></td>
<td>-7.6%</td>
</tr>
<tr>
<td>Inventories</td>
<td>27 589</td>
<td>26 869</td>
<td></td>
</tr>
<tr>
<td>Receivables for goods and services sold</td>
<td>2 385 375</td>
<td>658 216</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>18 709 240</td>
<td>15 311 494</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>27 858 306</td>
<td>37 106 835</td>
<td></td>
</tr>
<tr>
<td>Short-term prepayments</td>
<td>127 943</td>
<td>60 472</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>81 311 863</strong></td>
<td><strong>83 071 999</strong></td>
<td>-2.1%</td>
</tr>
</tbody>
</table>
Financial situation of LiveChat Software Group

Presentation of separated results

Balance sheet - liabilities

<table>
<thead>
<tr>
<th></th>
<th>[PLN]</th>
<th>September 30, 2020</th>
<th>March 31, 2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Own equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial equity</td>
<td></td>
<td>515 000</td>
<td>515 000</td>
<td></td>
</tr>
<tr>
<td>Supplementary capital</td>
<td></td>
<td>28 547 392</td>
<td>16 578 404</td>
<td></td>
</tr>
<tr>
<td>Net profit (loss) for the fiscal year</td>
<td></td>
<td>46 254 983</td>
<td>75 828 988</td>
<td></td>
</tr>
<tr>
<td>Advance payment for a dividend</td>
<td></td>
<td>0</td>
<td>-15 450 000</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities and provisions</strong></td>
<td></td>
<td>5 994 488</td>
<td>5 999 607</td>
<td>+7.1%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income tax</td>
<td></td>
<td>0</td>
<td>424</td>
<td></td>
</tr>
<tr>
<td>Deferred income tax</td>
<td></td>
<td>0</td>
<td>424</td>
<td></td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td></td>
<td>3 122 815</td>
<td>3 301 564</td>
<td></td>
</tr>
<tr>
<td>Trade liabilities</td>
<td></td>
<td>3 122 815</td>
<td>3 301 564</td>
<td></td>
</tr>
<tr>
<td>Due to remuneration</td>
<td></td>
<td>173 130</td>
<td>235 701</td>
<td></td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td></td>
<td>2 871 673</td>
<td>2 297 619</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td></td>
<td>81 311 863</td>
<td>83 071 999</td>
<td>-2.1%</td>
</tr>
</tbody>
</table>
# Financial situation of LiveChat Software Group

**Presentation of separated results**

## Cash position

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td>46 254 983</td>
<td>30 942 018</td>
<td></td>
</tr>
<tr>
<td>Total adjustments, including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4 197 326.25</td>
<td>2 635 451</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>38 078</td>
<td>5 548</td>
<td></td>
</tr>
<tr>
<td>Investments in intangibles and in real fixed assets</td>
<td>6 412 176</td>
<td>5 343 124</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>48 410 000</td>
<td>36 310 826</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flow from financing activities</strong></td>
<td>-48 410 000</td>
<td>-36 310 826</td>
<td></td>
</tr>
<tr>
<td><strong>Total net cash flow</strong></td>
<td><strong>-9 248 529</strong></td>
<td><strong>-10 973 387</strong></td>
<td><strong>-15.7%</strong></td>
</tr>
<tr>
<td>Cash at the beginning of the period</td>
<td>37 106 835</td>
<td>32 039 847</td>
<td></td>
</tr>
<tr>
<td><strong>Cash at the end of the period</strong></td>
<td><strong>27 858 306</strong></td>
<td><strong>21 066 460</strong></td>
<td><strong>+32.2%</strong></td>
</tr>
</tbody>
</table>
Shares and shareholders

Structure of the initial equity

As of the date of this report, initial equity of the company consisted of 25,750,000 (twenty-five million, seven hundred and fifty thousand) ordinary shares issued and fully paid up, including 25,000,000 (twenty-five million) series A shares and 750,000 (seven hundred and fifty) thousand series B shares. Par value of each share is equal to PLN 0.02 (two grosze).

Changes in the shareholding structure

There were no significant changes in the Company’s shareholding structure in the first half of the financial year. On 22 October 2020, the Company received a notification from Mariusz Ciepły and Maciej Jarzębowski (“Selling Shareholders”) that the Selling Shareholders had commenced the accelerated book building process (“ABB Procedure”), the purpose of which was to sell up to 1,287,500 shares of the Company held by the Selling Shareholders, representing a total of 5% of the share capital of the Company and carrying 5% of the total number of votes at the General Meeting of the Company.

The procedure was completed the next day, and on October 28, 2020, the Company received notifications from shareholders regarding changes in the share in the total number of votes at the General Meeting.

According to those notifications, as a result of the transfer of the Company’s shares on 28 October 2020, following the conclusion of block transactions by the Selling Shareholders, a total of 1,287,500 shares of the Company were sold as part of the accelerated book building process:

- Mariusz Ciepły’s share in the total number of votes at the General Meeting of the Company decreased from 15.57% to 13.07%.
- Mr Maciej Jarzębowski’s share in the total number of votes at the General Meeting of the Company decreased from 11.69% to 9.19%; and
- the total share of the parties to the Shareholders Agreement (Mariusz Ciepły, Maciej Jarzębowski, Jakub Sitarz, Urszula Jarzębowska, Szymon Klimczak, Krzysztof Górski) in the total number of votes at the General Meeting of the Company decreased from 46.90% to 41.90%.

Shareholder structure

<table>
<thead>
<tr>
<th>Shareholder structure</th>
<th>Number of shares and votes</th>
<th>% of shares and votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationale-Nederlanden PTE</td>
<td>1 591 000</td>
<td>6.18%</td>
</tr>
<tr>
<td>Aviva OFE Aviva Santander</td>
<td>1 687 000</td>
<td>6.55%</td>
</tr>
<tr>
<td>The shareholder consortium - dominant shareholder, incl. shareholders with 5%+ shares and votes:</td>
<td>10 790 022</td>
<td>41.90%</td>
</tr>
<tr>
<td>Mariusz Ciepły</td>
<td>3 366 250</td>
<td>13.07%</td>
</tr>
<tr>
<td>Maciej Jarzębowski</td>
<td>2 366 250</td>
<td>9.19%</td>
</tr>
<tr>
<td>Jakub Sitarz</td>
<td>3 010 000</td>
<td>11.69%</td>
</tr>
<tr>
<td>Others</td>
<td>10 394 478</td>
<td>45.37%</td>
</tr>
<tr>
<td>Together</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.

* As of the formation of the report, according to the shareholders’ notifications received by the Company and other public data from the Polish pension funds’ reports.
Governance

Composition of the Company’s Management Board

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>PLN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariusz Ciepły</td>
<td>CEO</td>
<td>298 288</td>
</tr>
<tr>
<td>Urszula Jarzębowska</td>
<td>Board member</td>
<td>198 859</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>497 147</strong></td>
</tr>
</tbody>
</table>

Composition of the Management Board has not changed in the course of 2020/21 fiscal year.

**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 Wrocław. He is also a member of the supervisory boards at Time Solutions sp. z o.o. and Brand 24 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 Wrocław and studies in the International Accounting Standards (IAS/IFRS) at the Leon Koźmiński Academy in Warsaw. She also has professional experience from companies such as Bankier.pl and Internet Works.

Remuneration

Remuneration of members of the Management Board of LiveChat Software S.A. in the reported period.

Members of the Supervisory Board did not receive any remuneration from the Company during the financial year.

Principles of operation of the Management Board

The Management Board represents and Company and manages its affairs.

The Management 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 Management Board carries out its duties collectively, taking up resolutions at Management 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 Management Board takes up resolutions if the meeting is attended by at least half the members of the Managing Board, including the Chief Executive Officer.

The Management 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 Management Board may also take place without being formally called up, if all members of the Management Board are present at such meeting.

Management 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 invited by the Chief Executive Officer may participate in Board meetings.

The Management 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 Management Board have been described in detail in the Company’s Articles of Association and in Management Board Regulations, whose full text is available at www.inwestor.livechatinc.com.
Governance

Supervisory board

As at September 30, 2020 the composition of the Supervisory Board of LiveChat Software S.A. consisted of the following persons:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maciej Jarzękowski</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 Jarzękowski has secondary education (specialization: catering) He has graduated from Trade School of Gastronomy in Wrocław. Between 1999 and 2001 he served as the CEO of Bankier.pl, between 2001 and 2006 he was the CEO of Internet Works. He served as the CEO of LiveChat Software S.A. until 2010.

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

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

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

Michał Markowski meets the criteria of an independent Member of the Supervisory Board.

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

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

Shares held by members of Management and Supervisory bodies

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>No of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariusz Ciepły</td>
<td>CEO</td>
<td>3 366 250</td>
</tr>
<tr>
<td>Urszula Jarzębowska*</td>
<td>Member of the Board</td>
<td>1 210 250</td>
</tr>
<tr>
<td>Maciej Jarzękowski</td>
<td>Chairman of Supervisory Board</td>
<td>2 366 250</td>
</tr>
<tr>
<td>Jakub Sitarz*</td>
<td>Member of Supervisory Board</td>
<td>3 010 000</td>
</tr>
<tr>
<td>Marcin Mańdziak*</td>
<td>Member of Supervisory Board</td>
<td>2 358</td>
</tr>
</tbody>
</table>

*In the reported period there was no change in number of shares by respective member of Management or Supervisory bodies

On October 22, 2020 the Company received notifications on planned transactions of selling shares by Mr. Mariusz Ciepły and Mr. Maciej Jarzęowski, which are described in details in the section of the report concerning the changes in the shareholders’ structure.
Remuneration policy

Remuneration policy for members of the Management Board and Supervisory Board of LiveChat Software

On 11 August 2020, the Supervisory Board had approved the “Remuneration policy for members of the Management Board and Supervisory Board of LiveChat Software”, which was subsequently passed by the General Meeting on 18 August 2020.

The “Policy” regulates the principles of remuneration for members of the Management Board and Supervisory Board of LiveChat Software. Its full and updated contents can be found on the investor relations page of the Company’s website.

As per the “Policy”, the remuneration of the members of the Management Board of the company consists of a fixed part and variable part, and it is determined by the Supervisory Board, which passes resolutions in this regard.

When it appoints a Board Member, the Supervisory Board defines the primary components of the Member’s remuneration, including the amount of the Base Remuneration and Bonus Remuneration and the rules according to which the variable remuneration depends on the financial performance of the Company or other criteria.

The amount of the Variable Remuneration awarded to a Board Member shall not exceed 15 times the average monthly salary in the business sector, excluding the bonuses from the profit in the fourth quarter of the previous year, announced by the President of the Central Statistical Office of Poland (GUS).

Each Member of the Management Board of the Company may receive variable remuneration (bonuses) depending on the financial performance of the Company and/or other criteria expressly indicated in the relevant resolution of the Supervisory Board.

The purpose of Bonus Remuneration is to reward the Board Members for the achievement of quantitative or qualitative targets, contributing to the value of the Company and achievement of the Company’s results during the financial year as well as long-term objectives.

The only legal basis for remuneration of the members of the Supervisory Board shall be resolutions of the General Meeting. The Fixed Remuneration of the member of the Supervisory Board shall depend on the member’s function (e.g. president and deputy president of the Supervisory Boards and its committees, participant of Supervisory Board committees). The remuneration of the Members of the Supervisory Board that meet the criterion of independence should contribute to continued independence from the majority shareholder and decision-makers of the Company.

Taking into account the working and payroll conditions of other personnel

Since the primary business of the Company is the development of software solutions, the Company’s operations are mainly based on persons working under contracts of mandate and self-employed persons (sole proprietors). Using such forms of cooperation enables flexible selection of the best staff and quick response to the constantly changing economic situation regarding the availability of human resources on the market at the particular time, which is particularly characteristic to the sector in which the Company carries on its business. This way, it is also possible to adapt the terms of cooperation with the personnel, including, in particular, closely associating the remuneration with the economic effects achieved by the Company and/or the Group.

Resolution of the Supervisory Board regarding the method of determining the remuneration of the Management Board

The Supervisory Board of LiveChat Software adopted a resolution on 18 August 2020 that defined the salary of the President of the Management Board as PLN 77,004.90 gross per month and the salary of the Board Member as PLN 47,446.08 gross.

Additionally, the Supervisory Board defined the Variable Remuneration (Bonus) as 1% of the gross profit of the Company achieved in the particular financial year. Every member of the Management Board is entitled to receive the Bonus.

The Supervisory Board will determine the final amount of the Bonus due for the particular financial year and account for the payments of the Bonus by way of a resolution within thirty days from the resolution of the Ordinary General Meeting approving the financial statement of the Company for the particular financial year, examined by an auditor. The resolution of the Supervisory Board is adopted upon request of the President of the Management Board.
Other Information

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 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.

Auditing firm

On October 17, 2019, the Supervisory Board adopted a resolution regarding the selection of a new audit company to perform the statutory audit of LIVECHAT Software SA’s financial statements in the period from 01/04/2019 to 31/03/2021 and the performance of the statutory audit of the consolidated financial statements of the LIVECHAT Software Capital Group during from 01/04/2019 to 31/03/2021, as well as the voluntary audit of interim financial statements of LIVECHAT Software SA in the period from 1/04/2019 to 31/03/2021 as well as the review of the interim consolidated financial statements of the LIVECHAT Software Capital Group from 1/04/2019 to 31/03/2021.
Pursuant to the Resolution, the Supervisory Board, following a positive recommendation of the Audit Committee, selected Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Sp.k.

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

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

Information about the employment
At the end of the reporting period the Company collaborated with 185 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.
Disclaimer

This document was created as a translation from Polish. In case of any discrepancies, the Polish version applies.
All statements of the Management Board and Supervisory Board, required by law, were placed in the original version of the document.