LiveChat Software

Q1 2020/21 FY
Customer communication without barriers
Help people and business communicate better and fully express themselves.
Operating summary

Commentary of the Management Board

In the first quarter of the financial year 2020/2021, the LiveChat Software Group made PLN 41.6 million in revenues and PLN 20.8 million in consolidated net income (without potential effect of IP Box, which can be recognized later). This represents an increase by 37.9% and 41.4%, respectively, in comparison with the same period in the previous year.

Starting from the middle of March 2020, our business has been significantly affected by the global pandemic. In March, LiveChat Software itself went entirely into home office mode. In July, we reopened our office, implementing many restrictions and precautionary measures. However, we are very satisfied with the results of home office, particularly with the efficiency recorded during that period. Consequently, we have announced that we still prefer the remote working model, and we encourage our colleagues to use it whenever possible.

The "lockdown" and other effects of the pandemic have caused business difficulties to many LiveChat clients. Consequently, we recorded a very high customer churn in April – approx. 4.5%. However, in the subsequent months, churn has immediately dropped to levels that only slightly exceeded the historical average of approx. 3% per month.

In the same period, the high churn was successfully compensated for by the very high number of new clients looking for effective solutions for online communication. At the same time, many of the current clients of the Company made intensive use of its solutions, resulting in high additional sales – including both new licences for additional agents and progressing to more expensive subscription plans that provided additional features. This increased ARPU (average revenue per user of the LiveChat solution).

LiveChat ARPU was also positively affected by a change of the pricing model for that product as of the beginning of the calendar year 2020. The ARPU of the ChatBot product, in turn, was contributed by the new subscription plans implemented in January 2020.

The charts included here illustrate the change of ARPU and average sale price (ARPU for new clients) in recent months.

In the 1st quarter of 2020/2021, we continued various development efforts to improve our products, implement new functions and enable integration with new communication channels.

This intensive development work and increased personnel, however, did not stop us from achieving very high margins. The gross margin on sales in the period from April to June was 86.2%, and the net margin was 50%. The cash flows on operating activities amounted to PLN 24.3 million, and we had PLN 59.5 million of cash at the end of the quarter.
## Operating summary

### Selected consolidated financial data

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>Q1 2020/21</th>
<th>Q1 2019/20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales of products, goods and materials</td>
<td>41 627 541</td>
<td>30 177 385</td>
<td>37.9%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>28 046 452</td>
<td>19 466 730</td>
<td>44.1%</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>25 821 933</td>
<td>18 198 820</td>
<td>41.9%</td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>25 270 548</td>
<td>18 225 299</td>
<td>38.7%</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>20 801 750</td>
<td>14 713 718</td>
<td>41.4%</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>21 191 062</td>
<td>11 090 995</td>
<td>91.1%</td>
</tr>
<tr>
<td>cash flow from operating activities</td>
<td>24 309 842</td>
<td>13 755 751</td>
<td>76.7%</td>
</tr>
<tr>
<td>cash flow from investing activities</td>
<td>-2 909 808</td>
<td>-2 664 756</td>
<td>-</td>
</tr>
<tr>
<td>cash flow from financial activities</td>
<td>-208 971</td>
<td>-</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>0.81</td>
<td>0.57</td>
<td>42.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>30 June 2021</th>
<th>31 March 2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>108 908 064</td>
<td>87 628 815</td>
<td>24.3%</td>
</tr>
<tr>
<td>Liabilities and provisions</td>
<td>9 596 887</td>
<td>8 948 152</td>
<td>7.2%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>2 135 402</td>
<td>2 338 711</td>
<td>-8.7%</td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>7 461 485</td>
<td>6 609 441</td>
<td>12.9%</td>
</tr>
<tr>
<td>Net equity</td>
<td>99 311 177</td>
<td>78 680 663</td>
<td>26.2%</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>3.86</td>
<td>3.06</td>
<td>26.1%</td>
</tr>
</tbody>
</table>

The potential effect of using the IP Box program on the company’s results can be recognized in the annual report - analogous to the 2019/20 financial year.
Operating summary

Key Events

On 5 June 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 11 August, 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 Ciepły and Ms Urszula Jarzębewska into the Management Board. At the same time, Mariusz Ciepły was appointed the Board President, and Ms Urszula Jarzębewska became a Board Member.

An Ordinary General Meeting was held on 18 August, 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 – the amount of the first payment was PLN 0.60 per share, and the amount of the second advance payment was also PLN 0.60 per share).

The remaining amount to be paid is PLN 1.28 per share.
The dividend will cover 25,750,000 shares of the Company.
The date for the determination of shareholders entitled to receive dividend was specified as 25 August 2020, and the date of payment of the dividend – 1 September 2020.

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 between 9 and 15 March. 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 Wrocław, 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)
Other Events

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 emphasises 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 emphasises 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.
Structure of LiveChat Software Capital Group

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

The Company has no branch offices.

Changes in organization

During the financial year, the Company did not make any changes to its organisational structure. In May 2020, the number of so-called “CXOs” (Chief Officer), i.e. heads of departments reporting directly to the President of the Management Board, 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 organisational structure has been flattened – importantly, it is people who have been with LiveChat for a long period of time who got promoted.
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 the activities of LiveChat Software Group

**Description of Group’s activities**

LiveChat Software is a developer and a global provider of LiveChat software. Its corporate portfolio includes 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.
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 main activity on which LiveChat Software is focused now is to build a bigger communication platform – LiveChat Platform and go beyond our flagship product.

The project aims to create a business ecosystem around our products existing on the market. It is supposed to accelerate the development of new solutions and to facilitate the introduction of their new functionalities which would be introduced not only by employees of the Company, but also by external entities.

Thanks to the platform and tools available on it (instructions, API documentation, examples of codes), everyone outside the Company will have an opportunity to create their own extension or application based on LiveChat technology. In this way, it is possible to introduce features that currently are not a part of product, but may be crucial for some users.

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

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

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

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 team work, 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.

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 lets companies create their own knowledge bases, which can be accessed by both their employees and clients.

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

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

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

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

Sale of software in a SaaS model produces significant benefits for both the client and the provider. From client’s perspective, the most common benefits include:
• very simplified application implementation process (short period of implementation combined with marginal costs) - this also applies to the latest software updates, which are usually performed automatically by the provider and requires no further actions from the client,
• significant savings in the cost of support and maintenance,
• predictable, regular and relatively low subscription payments instead of a substantial, one-time, cost of purchasing the software and essential infrastructure as well as any subsequent additional costs,
• flexible payment scheme enables resignation from the service at any time,
• high degree of product scalability along with the increase of demand on client’s side,
• opportunity to use the application from any place using desktop computers and mobile devices.

From the software vendor point of view, sale of software in the SaaS model is characterized by the following:
• simplified distribution process,
• global reach of the offered services,
• universal nature of the software,
• control over the quality of implementation for every client,
• reduced cost of maintenance and warranty,
• elimination of the issue of software piracy,
• developer retains all the copyrights.

The SaaS market accounts for the majority of the Cloud Computing segment. By value, North America (USA in particular) represents the biggest part of the global market. The absence of cultural barriers associated with the use of advanced technology for business plays a significant role in the aspect of cloud solutions development. This is particularly important from the point of view of SaaS software for small and medium-sized enterprises.
Description of the activities of LiveChat Software Group

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

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

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

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

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

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

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

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

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

Information about 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 658,216.23;
- Obligations to LiveChat, Inc. in the amount of 0.00 PLN;
- Sales revenues to LiveChat, Inc. in the amount of PLN 128,449,907.96;
- Costs of services purchased from LiveChat, Inc. in the amount 30,071,198.92 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, 2019 to December 31, 2019.

Loans granted

The Company has not made any loans.

Guarantees made or received

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

Insurance agreements

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

Description of ongoing court or administrative proceedings

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

Information about the employment

At the end December 2019, the Company collaborated with with 166 persons on a regular basis. The biggest groups include software developers and the customer service department, working in a 24/7 model. The next largest group is the marketing department. The Management Board consists of persons who have spent years working on the LiveChat project.
Description of the activities of LiveChat Software Group

Growth prospects

Market growth prospects

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

Group’s growth strategy

Product development

The Company’s development strategy is based on making continuous, balanced investments into further development of the LiveChat product and new products in the field of customer services, among others ChatBot, KnowledgeBase and HelpDesk.

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

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

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

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

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

Risks related to the Group's operations

Exchange rate risk

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

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

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

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

Risk related to competition

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

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

Growth prospects

Risks related to the Group’s operations

Risk related to product distribution channels and reaching new customers

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

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

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

Risk related to technical failures

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

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

Risk related to the occurrence of a breakdown or hacker attack

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

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

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

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

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

Risk related to product concentration

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

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

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

Risk of Customer loss

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

Risk related to contracts concluded with Customers

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

Growth prospects

Risks related to the Group's operations

Reputational risk

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

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

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

Trademark risk

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

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

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

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

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

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

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

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

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

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

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

Growth prospects

Risks related to the Group's operations

Risk associated with the creation of intellectual property

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

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

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

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

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

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

In addition, the Issuer diversifies service providers, especially in the field of data protection.
Description of the activities of LiveChat Software Group

Growth prospects

Risks related to the Group's operations

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

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

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

The company does not apply hedge accounting.

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

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

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

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

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

Presentation of consolidated results

In this section, the financial results of LiveChat Software Group are presented for the quarter Q1 2020/21 and compared to Q1 2019/20. The main impact on the results achieved by the Group is the number of customers using the company’s solutions and the ARPU ratio.

The US dollar exchange rate also had a significant impact on the result. The Group generates virtually all revenues in USD, while a large part of the costs are realized in PLN.

A possible impact on the results of the financial year may be the "IP Box" tax relief.

The increase in costs resulted, among others, from higher costs of external services, which was caused, among others, by higher commissions in the affiliate program (paid in USD), higher reserve for server maintenance and costs of building the sales department in the USA. The cost of third-party licensing and software has also increased.

### Income statement

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>Q1 2020/21</th>
<th>Q1 2019/20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>41 627 541</td>
<td>30 177 385</td>
<td>+37.9%</td>
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<tr>
<td>Costs of goods sold</td>
<td>5 603 238</td>
<td>4 728 394</td>
<td></td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>36 024 303</td>
<td>25 448 991</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7 768 049</td>
<td>3 903 559</td>
<td></td>
</tr>
<tr>
<td>General management and administration</td>
<td>2 411 877</td>
<td>3 347 679</td>
<td></td>
</tr>
<tr>
<td>Profit (loss) on sales</td>
<td>25 844 377</td>
<td>18 197 753</td>
<td></td>
</tr>
<tr>
<td>Other operating income</td>
<td>11 974</td>
<td>3 975</td>
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<tr>
<td>Other operating expenses</td>
<td>34 418</td>
<td>2 907</td>
<td></td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>25 821 933</td>
<td>18 198 820</td>
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<tr>
<td>Financial income</td>
<td>3 449</td>
<td>26 478</td>
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<tr>
<td>Financial expenses</td>
<td>554 834</td>
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<tr>
<td>Profit (loss) before tax</td>
<td>25 270 548</td>
<td>18 225 299</td>
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<tr>
<td>Income tax</td>
<td>4 468 798</td>
<td>3 511 581</td>
<td></td>
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<tr>
<td>Net profit (loss)</td>
<td>20 801 750</td>
<td>14 713 718</td>
<td>+41.4%</td>
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</table>
Financial situation of LiveChat Software Group
Presentation of consolidated results

Balance sheet - assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>34 379 958</td>
<td>33 071 399</td>
<td>+4.0%</td>
</tr>
<tr>
<td>Fixed real assets</td>
<td>27 478 419</td>
<td>26 528 261</td>
<td></td>
</tr>
<tr>
<td>Intangible and legal assets</td>
<td>4 069 673</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>739 682</td>
<td>145 902</td>
<td></td>
</tr>
<tr>
<td>Long-term prepayments</td>
<td>1 910 270</td>
<td>1 894 240</td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>74 528 106</td>
<td>54 557 415</td>
<td>+36.6%</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Receivables for goods and services sold</td>
<td>588 029</td>
<td>485 832</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>14 005 085</td>
<td>15 329 346</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>59 872 827</td>
<td>38 681 765</td>
<td></td>
</tr>
<tr>
<td>Short-term prepayments</td>
<td>62 165</td>
<td>60 472</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>108 908 064</td>
<td>87 628 815</td>
<td>+24.2%</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>June 30, 2020</th>
<th>March 31, 2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Own equity</strong></td>
<td>99311177</td>
<td>78680663</td>
<td>+26.2%</td>
</tr>
<tr>
<td>Initial equity</td>
<td>515 000</td>
<td>515 000</td>
<td></td>
</tr>
<tr>
<td>Supplementary capital</td>
<td>16 578 404</td>
<td>16 578 404</td>
<td></td>
</tr>
<tr>
<td>FX differences</td>
<td>9 541</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>61 406 482</td>
<td>737 638</td>
<td></td>
</tr>
<tr>
<td>Net profit (loss) for the fiscal year</td>
<td>20 801 750</td>
<td>76 118 844</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities and provisions</strong></td>
<td>9596887</td>
<td>8948152</td>
<td>+7.2%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>2 135 402</td>
<td>2 338 711</td>
<td></td>
</tr>
<tr>
<td>Deferred income tax</td>
<td>-</td>
<td>424</td>
<td></td>
</tr>
<tr>
<td>Short-term liabilities</td>
<td>7 461 485</td>
<td>6 609 441</td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>6 291 012</td>
<td>4 855 563</td>
<td></td>
</tr>
<tr>
<td>Current income tax</td>
<td>92 049</td>
<td>687 329</td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>257 853</td>
<td>239 891</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>108 908 064</td>
<td>87 628 815</td>
<td>+24.2%</td>
</tr>
</tbody>
</table>
Financial situation of LiveChat Software Group

Presentation of consolidated results

<table>
<thead>
<tr>
<th>Cash position</th>
<th>Q1 2020/21</th>
<th>Q1 2019/20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit (loss)</td>
<td>25,270,548</td>
<td>18,225,299</td>
<td>+24,309</td>
</tr>
<tr>
<td>Total adjustments. including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>-960,706</td>
<td>-4,469,548</td>
<td>+2,909</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>-5,064,078</td>
<td>-4,865,200</td>
<td>-208</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>24,309,842</td>
<td>13,755,751</td>
<td>+37,0%</td>
</tr>
<tr>
<td>Interest received</td>
<td>2,412</td>
<td>26,478</td>
<td></td>
</tr>
<tr>
<td>Investments in intangibles and in real fixed assets</td>
<td>-2,946,126</td>
<td>-2,691,234</td>
<td></td>
</tr>
<tr>
<td>Cash flow from investing activities</td>
<td>-2,909,808</td>
<td>-2,664,756</td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>-208,971</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total net cash flow</td>
<td>21,191,062</td>
<td>11,090,995</td>
<td>+91,1%</td>
</tr>
</tbody>
</table>

Cash at the beginning of the period | 38,681,765 | 32,624,369 | 
Cash at the end of the period | 59,872,827 | 43,715,364 | 

Cash position diagram:

- Cash 01.04.2020: 38,682
- Cash flow from operating activities: +24,309
- Cash flow from investing activities: -2,909
- Cash flow from financing activities: -208
- Cash 31.03.2020: 59,873
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.

**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 indicators:

<table>
<thead>
<tr>
<th></th>
<th>Q1 2020/21</th>
<th>Q1 2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit margin</td>
<td>86,5%</td>
<td>84,3%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>67,4%</td>
<td>64,5%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>62,0%</td>
<td>60,3%</td>
</tr>
<tr>
<td>Net margin</td>
<td>50,0%</td>
<td>48,8%</td>
</tr>
</tbody>
</table>
## Financial situation of LiveChat Software Group

### Presentation of separated results

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>41 627 541</td>
<td>30 177 385</td>
<td>+38.0%</td>
</tr>
<tr>
<td>Costs of goods sold</td>
<td>5 549 113</td>
<td>3 354 370</td>
<td></td>
</tr>
<tr>
<td>Gross profit (loss)</td>
<td>36 078 427</td>
<td>26 823 014</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7 844 423</td>
<td>3 938 226</td>
<td></td>
</tr>
<tr>
<td>General management and administration</td>
<td>2 425 973</td>
<td>4 338 456</td>
<td></td>
</tr>
<tr>
<td>Profit (loss) on sales</td>
<td>25 808 030</td>
<td>18 546 331</td>
<td></td>
</tr>
<tr>
<td>Other operating income</td>
<td>11 974</td>
<td>3 974</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>34 417</td>
<td>2 907</td>
<td></td>
</tr>
<tr>
<td><strong>Operating profit (loss)</strong></td>
<td><strong>25 785 586</strong></td>
<td><strong>18 547 399</strong></td>
<td>+39.0%</td>
</tr>
<tr>
<td>Financial income</td>
<td>3 449</td>
<td>26 478</td>
<td></td>
</tr>
<tr>
<td>Financial expenses</td>
<td>608 958</td>
<td>389 937</td>
<td></td>
</tr>
<tr>
<td>Profit (loss) before tax</td>
<td>25 180 077</td>
<td>18 183 939</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>4 468 798</td>
<td>3 511 580</td>
<td></td>
</tr>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td><strong>20 711 279</strong></td>
<td><strong>14 672 359</strong></td>
<td>+41.2%</td>
</tr>
</tbody>
</table>

---

[Image]
Financial situation of LiveChat Software Group
Presentation of separated results

Balance sheet - assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></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>31 425 641</td>
<td>29 908 111</td>
<td>+5,1%</td>
</tr>
<tr>
<td>Intangible and legal assets</td>
<td>27 478 418</td>
<td>26 528 261</td>
<td></td>
</tr>
<tr>
<td>Long-term receivables</td>
<td>1 113 699</td>
<td>1 156 138</td>
<td></td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>181 914</td>
<td>181 914</td>
<td></td>
</tr>
<tr>
<td>Long-term prepayments</td>
<td>739 681</td>
<td>145 901</td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>2 649 951</td>
<td>2 040 141</td>
<td></td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td>72 750 724</td>
<td>53 163 887</td>
<td>+36,8%</td>
</tr>
<tr>
<td>Inventories</td>
<td>24 727</td>
<td>26 869</td>
<td></td>
</tr>
<tr>
<td>Receivables for goods and services sold</td>
<td>29 618 772</td>
<td>658 216</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>13 996 226</td>
<td>15 311 493</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>13 996 226</td>
<td>15 311 493</td>
<td></td>
</tr>
<tr>
<td>Short-term prepayments</td>
<td>29 048 832</td>
<td>37 106 835</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>104 176 366</td>
<td>83 071 998</td>
<td>+25,4%</td>
</tr>
</tbody>
</table>
## Financial situation of LiveChat Software Group

**Presentation of separated results**

### Balance sheet - liabilities

<table>
<thead>
<tr>
<th>[PLN]</th>
<th>30 June 2020 r.</th>
<th>31 March 2020 r.</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Own equity</strong></td>
<td></td>
<td></td>
<td>+26.7%</td>
</tr>
<tr>
<td>Initial equity</td>
<td>515 000</td>
<td>515 000</td>
<td></td>
</tr>
<tr>
<td>Supplementary capital</td>
<td>16 578 403</td>
<td>16 578 403</td>
<td></td>
</tr>
<tr>
<td>FX differences</td>
<td>20 711 279</td>
<td>75 828 987</td>
<td></td>
</tr>
<tr>
<td>Advance payment for a dividend</td>
<td>-</td>
<td>-15 450 000</td>
<td></td>
</tr>
<tr>
<td><strong>Unallocated equity from the previous years</strong></td>
<td>5 992 695</td>
<td>5 600 795</td>
<td>+7.0%</td>
</tr>
<tr>
<td>Net profit (loss) for the fiscal year</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities and provisions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>3 280 781</td>
<td>3 301 563</td>
<td></td>
</tr>
<tr>
<td>Deferred income tax</td>
<td>2 930 879</td>
<td>2 374 343</td>
<td></td>
</tr>
<tr>
<td><strong>Short-term liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>due to remuneration</td>
<td>254 661</td>
<td>235 700</td>
<td></td>
</tr>
<tr>
<td>Prepayments</td>
<td>2 711 913</td>
<td>2 297 619</td>
<td></td>
</tr>
<tr>
<td><strong>Other payables</strong></td>
<td>104 176 366</td>
<td>83 071 998</td>
<td>+25.4%</td>
</tr>
</tbody>
</table>
Financial situation of LiveChat Software Group
Presentation of separated results

<table>
<thead>
<tr>
<th>Cash position</th>
<th>Q1 2020/21</th>
<th>Q1 2019/20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td>20 711 279</td>
<td>14 672 359</td>
<td></td>
</tr>
<tr>
<td>Total adjustments, including:</td>
<td>-25 860 502</td>
<td>-9 306 570</td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>2 015 548</td>
<td>1 267 908</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>-5 149 223</td>
<td>5 365 788</td>
<td></td>
</tr>
<tr>
<td><strong>Interest received</strong></td>
<td>3 440</td>
<td>26 478</td>
<td></td>
</tr>
<tr>
<td><strong>Investments in intangibles and in real fixed assets</strong></td>
<td>2 946 126</td>
<td>2 691 234</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td>-2 908 779</td>
<td>-2 664 755</td>
<td></td>
</tr>
<tr>
<td><strong>Dividends paid</strong></td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flow from financing activities</strong></td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total net cash flow</strong></td>
<td>-8 058 002</td>
<td>2 701 032</td>
<td>-</td>
</tr>
</tbody>
</table>

| Cash at the beginning of the period | 37 106 835 | 32 039 846 |
| Cash at the end of the period      | 29 048 832 | 34 740 879 | -16.4%  |
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
During the financial year, the Company did not record any significant changes in the shareholding 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>
</tbody>
</table>

The shareholder consortium - dominant shareholder, incl. shareholders with 5%+ shares and votes:
- Mariusz Ciepły | 4,010,000 | 15.57% |
- Maciej Jarzębowski | 3,010,000 | 11.69% |
- Jakub Sitarz | 3,010,000 | 11.69% |

Others | 10,394,478 | 40.37% |

Together | 25,750,000 | 100.00% |

As for June 30

- Consortium
- NN PTE
- Aviva OFE Aviva Santander
- Others
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>First and last name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariusz Ciepły</td>
<td>CEO</td>
</tr>
<tr>
<td>Urszula Jarzębowska</td>
<td>Board Member</td>
</tr>
</tbody>
</table>

Composition of the 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.

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>PLN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariusz Ciepły</td>
<td>CEO</td>
<td>152 606,53</td>
</tr>
<tr>
<td>Urszula Jarzębowska</td>
<td>Board member</td>
<td>101 737,69</td>
</tr>
<tr>
<td></td>
<td></td>
<td>254 344,22</td>
</tr>
</tbody>
</table>

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

Principles of operation of the Managing Board

The Managing Board represents and Company and manages its affairs.

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

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

The Managing Board takes up resolutions if the meeting is attended by at least half the members of the Managing Board, including the Chief Executive Officer.

Managing Board meetings will be held at least once a month. The meetings are called by the Chief Executive Officer, or, in his or her absence, by the Deputy Chief Executive Officer or another Board member replacing the Chief Executive Officer.

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

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

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

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

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

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

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

Supervisory board

As at June 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 Jarzębowski</td>
<td>Chairman of the Supervisory Board</td>
</tr>
<tr>
<td>Marcin Mańdziak</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Jakub Sitarz</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Marta Ciepła</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Michał Markowski</td>
<td>Member of the Supervisory Board</td>
</tr>
</tbody>
</table>

Maciej Jarzębowski has secondary education (specialization: catering) He has graduated from Trade School of Gastronomy in Wroclaw. 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 Wroclaw. He serves as key technology adviser.

Marta Ciepła is a graduate of the University of Natural Science in Wroclaw 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 Wroclaw University of Technology where he graduated in parallel from IT studies and financial management. At Wroclaw 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 Wroclaw 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 micropac 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>4 010 000</td>
</tr>
<tr>
<td>Urszula Jarzębowska</td>
<td>Member of the Board</td>
<td>1 210 250</td>
</tr>
<tr>
<td>Maciej Jarzębowski</td>
<td>Chairman of the Supervisory Board</td>
<td>3 010 000</td>
</tr>
<tr>
<td>Jakub Sitarz</td>
<td>Member of the Supervisory Board</td>
<td>3 010 000</td>
</tr>
</tbody>
</table>

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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 quantative 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.
Governing bodies

Audit Committee
26 Oct 2018 r. Supervisory Board appointed the Audit Committee composed of:

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

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

The statutory criterion of independence is fulfilled by: Marcin Mańdziak and Michał Markowski.

Michał Markowski has knowledge and skills in accounting and auditing financial statements. Michał Markowski has a degree in financial management of the undertaking from Wrocław University of Science and Technology and is the holder of ACCA qualification.

Jakub Sitarz has knowledge and skills in the field of the Company's operation. Jakub Sitarz has a degree in computer science from Wrocław University of Science and Technology and has 15 years' experience as Technology Manager at the Company.

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

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

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

The recommendation concerning selection of an audit firm fulfils binding legal conditions and internal regulations.
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 175 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.
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.