



Management report
LiveChat Software Group
H1 , 2017

Wrocław, November 28, 2017

Management report on the activities of LiveChat Software group

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LiveChat Software group ended the first half of the fiscal year 2017 with sales of PLN 43.6m, a 26.2% increase compared to the first half of the fiscal year 2016. EBITDA was up by 29.8% to PLN 31.1m, while consolidated net profit totaled PLN 23.1m and was higher by PLN 4.3m than last year.

It was another period of rapid growth, which continues virtually since 2010, when the company switched to a SaaS business model and reported its first-ever positive EBITDA.

Thanks to its business model, LiveChat Software is also able to generate very high margins. In 1H of the current fiscal year, sales margin has reached 84.2%, EBITDA 71.9%, operating margin 69.3% and net margin 53%. The company has once again proven that it is able to grow at a very rapid pace while keeping the costs in check and retaining a very light, scalable business model.

Churn rate and the Average Revenue Per User (ARPU) remain at very stable levels. For this reason, the key factor which affects Live Chat Software's financial results is the number of clients using the "LiveChat" solution. The company is publishing the current number of clients (which does not include users who are testing "LiveChat" as part of a free trial period) at the beginning of each month. These figures represent basic information for investors, allowing them to reliably estimate the growth rate of LiveChat Software.

Annual growth rates of the client numbers may be slowing down due to the rapidly increasing overall client base. However, following the current trends in the SaaS segment, LiveChat Software is focusing on communicating and setting the goal for the absolute (net) number of new clients. The Managing Board has set a long-term, strategic goal for a monthly net increase in subscriber number by 1000 clients. These results may be achieved by developing the "LiveChat" solution, as well as new solutions chat.io and BotEngine, plus other efforts by the company and projects that have yet to be announced. In total, LiveChat Software is conducting over 20 projects of various types and sizes, whose goal is to eventually increase company's potential to acquire new clients. However, for the time being the company is not disclosing publicly the timeframe in which it wants to achieve its targeted client acquisition growth rate.

On July 17, 2017, the General Meeting of Shareholders has made a decision on the allocation of profits for the fiscal year ending March 31, 2017.

A total of PLN 36.31m will be paid out as dividend, representing a record payout of PLN 1.41 per share. At the end of the period in question, the company held cash and cash equivalents totaling PLN 18.5m, or PLN 5.9m more than the year before. The Managing Board sees no reasons, at the present time, to change its dividend policy, which states that the company will be paying out its entire net profit as dividend unless it sees investment projects that would generate a better return.

Operating summary

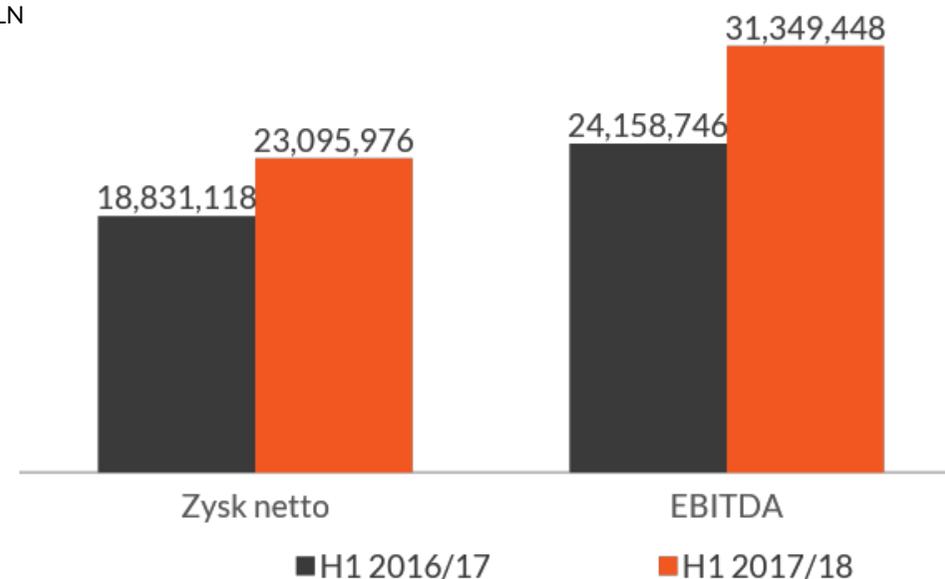
Selected consolidated financial data

[PLN]	H1 2017/18	H1 2016/17	Y/Y
Net sales of products, goods and materials	43 613 845	34 547 883	26,2%
EBITDA	31 349 448	24 158 746	29,8%
Operating profit (loss)	30 208 859	23 406 534	29,1%
Gross profit (loss)	28 679 302	23 505 634	22,0%
Net profit (loss)	23 095 976	18 831 118	22,6%
Net cash flow	-16 232 012	-10 560 513	53,7%
cash flow from operating activities	22 413 698	18 908 867	18,5%
cash flow from investing activities	-2 338 210	-1 659 380	40,9%
cash flow from financial activities	-36 307 500	-27 810 000	30,6%
Number of shares	25 750 000	25 750 000	-
Profit (loss) per ordinary share	0.90	0.73	23,3%

[PLN]	Q2 2017/18	Q2 2016/17	Y/Y
Net sales of products, goods and materials	22 028 898	17 965 712	22,6%
EBITDA	15 544 793	12 563 383	23,7%
Operating profit (loss)	14 953 836	12 166 118	22,9%
Gross profit (loss)	14 911 382	12 186 033	22,4%
Net profit (loss)	12 022 400	9 741 924	23,4%
Net cash flow	-25 684 517	-19 253 314	33,4%
cash flow from operating activities	11 777 591	9 282 533	26,9%
cash flow from investing activities	-1 154 608	-725 847	59,1%
cash flow from financial activities	-36 307 500	-27 810 000	30,6%

[PLN]	Sept. 30, 2017	Sept. 30, 2016	Y/Y
Total assets	34 206 950	23 534 714	45,3%
Liabilities and provisions	2 809 752	2 940 952	-4,5%
Long-term liabilities	0	492	-100,0%
Short-term liabilities	2 809 752	2 940 460	-4,4%
Net equity	31 397 199	20 593 762	52,5%
Initial equity	515 000	515 000	-
Number of shares	25 750 000	25 750 000	-
BVPS	1.22	0.80	52,5%

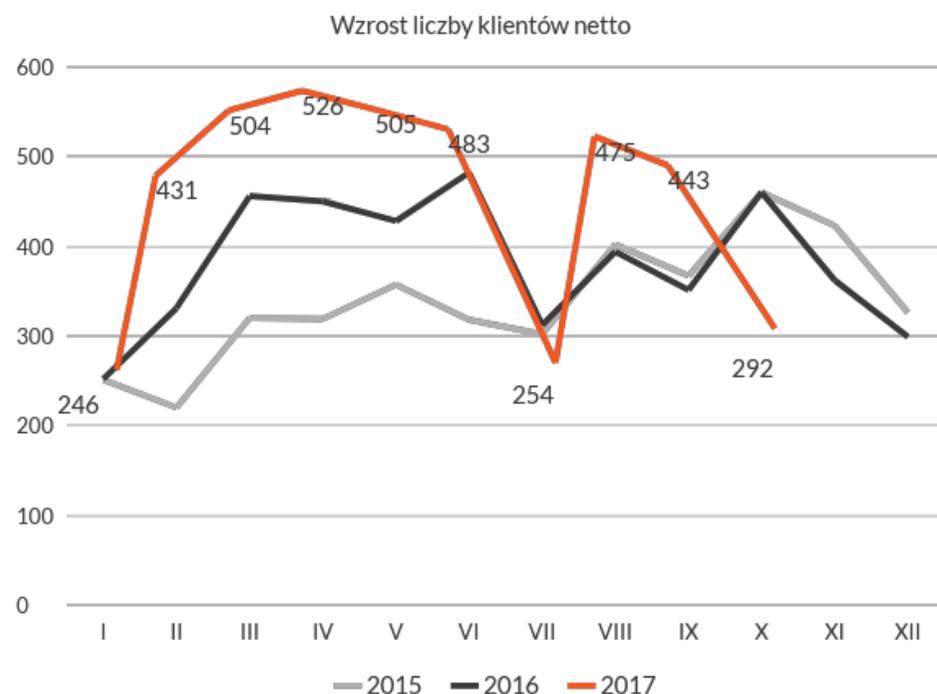
PLN



Operating highlights

Key events

The company has recorded dynamic growth rates in the number of clients who are using the “LiveChat” solution in each month of the first half of the fiscal year. Data on client acquisitions and growth rates are shown in the charts and tables below.



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

While analyzing monthly client acquisition data please note that the months of February, March, April, May, June, August and September were the best months in terms of net acquisitions in the history of LiveChat Software (i.e. best-ever February, March etc.). Results in individual months need to be compared to data from the year before, since they are subject to seasonal factors and are related to the level of activity in the e-commerce sector.

The relatively weak result in October (compared to same months in the previous year), is due solely to a smaller increase in client numbers in the first few days of the month.

The company would like to emphasize that all the figures presented, just as all the data about the number of clients published in relevant current reports, apply exclusively to ‘LiveChat’ clients and do not include the users of BotEngine and Chat.io.

On July 27, an Ordinary General Meeting was held, approving, among other items, the allocation of last year’s profits. According to the resolution of the OGM, unconsolidated net profit of LiveChat Software S.A., which in the year ending March 31, 2017, totaled PLN 42 724 723.86, was allocated as follows:

- dividend payment – PLN 36 307 500
- Reserve equity – PLN 6 417 223.86

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

The dividend date was set for July 24, 2017 and the payment for August 7, 2017.

The Supervisory Board and the Meeting of Shareholders have both approved Management Board proposal. This recommendation on the allocation of net profit was due to the change in the Polish Code of Commercial Companies which states that if the company has R&D-related assets on its books, the equivalent part of its profits must be retained unless the company has excess reserve and spare equity available for such distribution in an amount that matches, or exceeds the value of such R&D assets.

The company is reiterating its dividend policy which states that the entire net profit will be paid out as dividend unless it sees investments that would give the shareholders a better return.

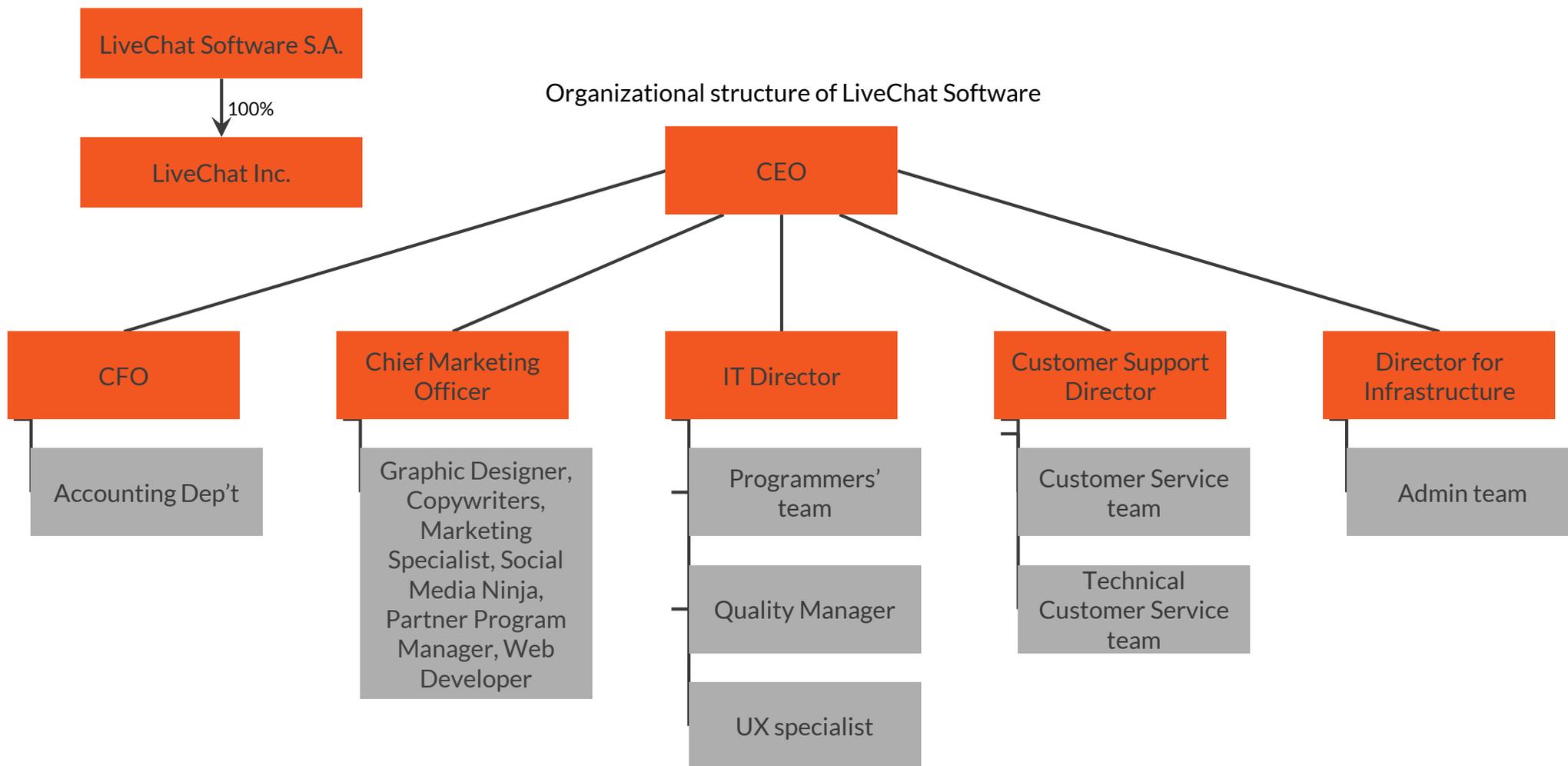
Structure of the LiveChat Software Group

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

The company has no branch offices.

Changes in the structure of the group

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



Description of the activities of LiveChat Software Group

Description of Group activities

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

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

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

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

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

BotEngine

In 1Q, LiveChat Software has begun open beta testing of the BotEngine platform, which is intended to give its partners the ability to create own chat bots. Commercialization of this project is planned at the beginning of next year.

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

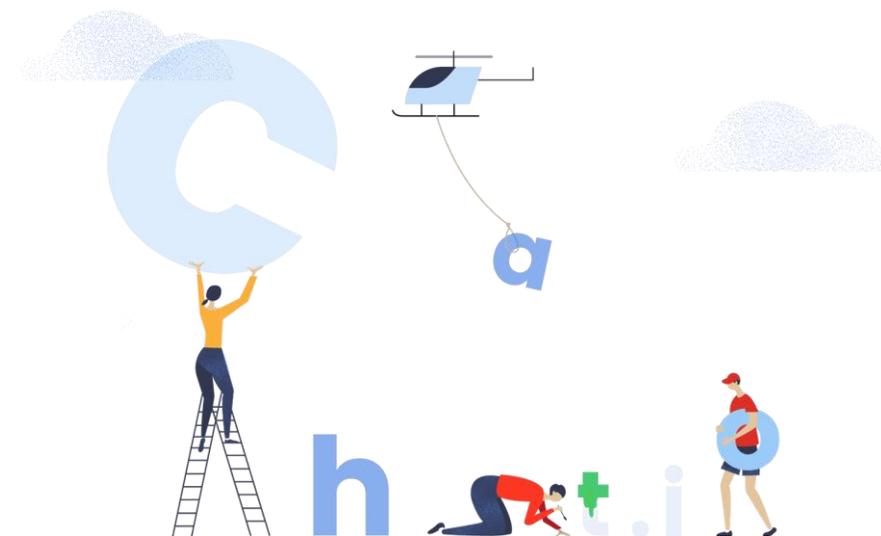
Chat.io

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

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

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

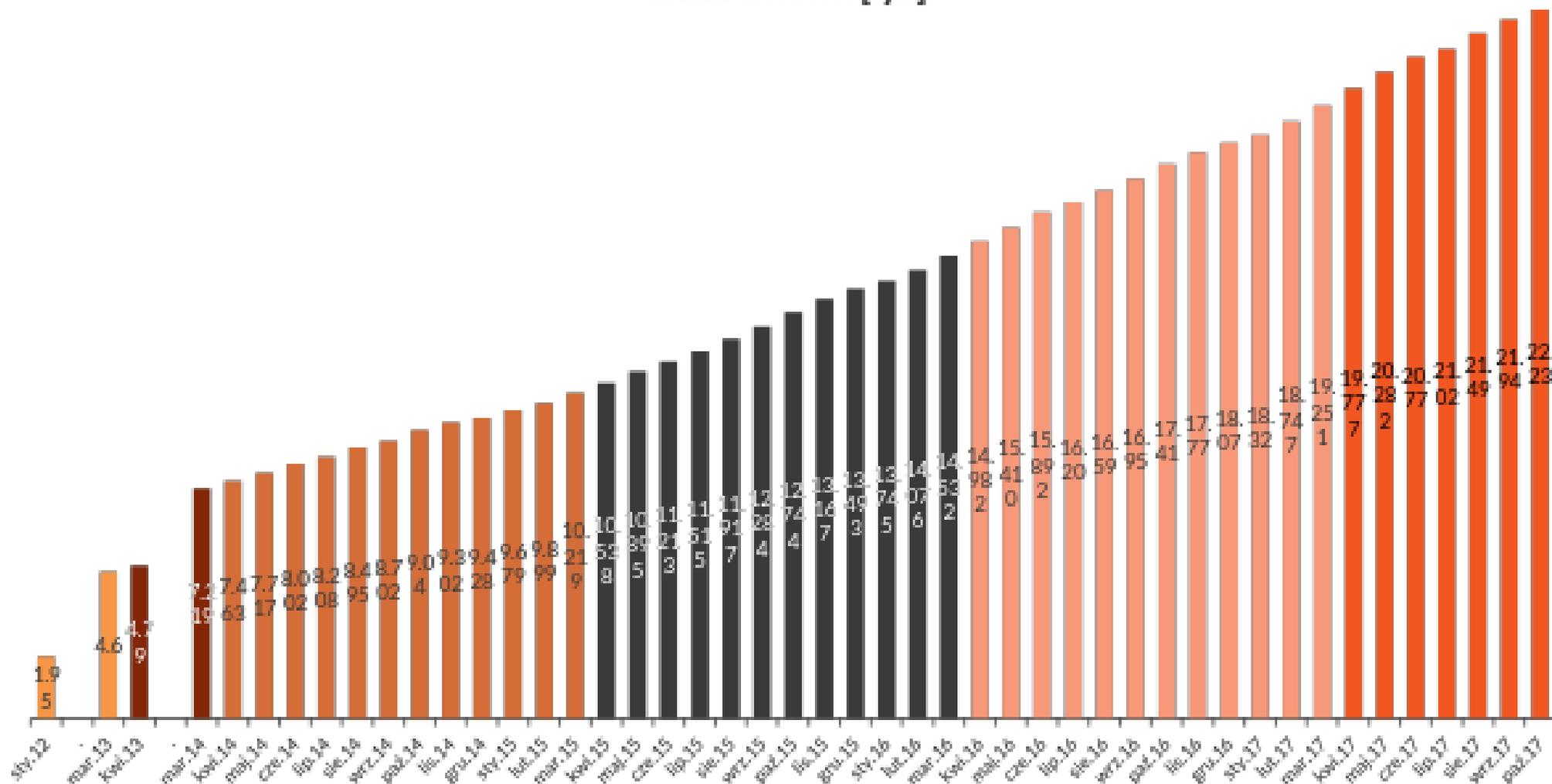
Chat.io is a solution integrated with Facebook and the company intends to give the users versions integrated with other platforms, including Twitter, e-mail and text messages.



Description of the activities of the LiveChat Software Group

Opis działalności prowadzonej przez Grupę

Liczba klientów [tys.]



Description of the activities of the LiveChat Software Group

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

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

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

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

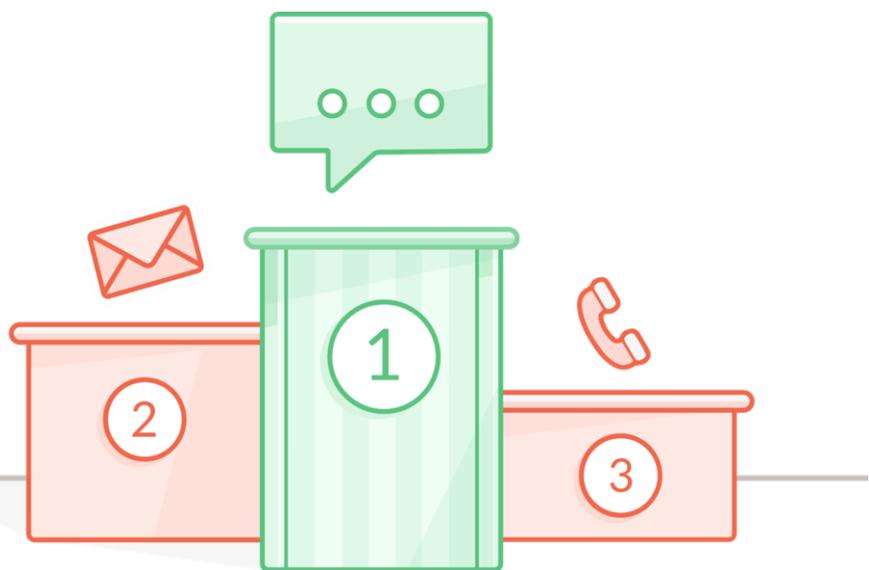
Sale of software in a SaaS model produces significant benefits for both the client and the provider. From client's perspective, the most common benefits include:

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

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

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

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



Description of the activities of the LiveChat Software Group

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

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

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

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

LivePerson Inc. specializes in live chat solutions for big corporate clients. The company boasts of having over 18 000 clients. Both Zendesk and Atlassian offer a number of CRM-type solutions. In 2014, with the takeover of Zopim, Zendesk has begun offering a solution now known as Zendesk Chat.

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

	30.09.2016*	31.12.2016*	31.03.2017*	30.06.2017*	30.09.2017*
Zendesk Chat (paid)	40.000	41.300	44.000	45.300	46.600
Quarter-over-quarter growth	-	+1.300	+2.700	+1.300	+1.300
LiveChat (paid)	16.949	18.070	19.251	20.765	21.937
Quarter-over-quarter growth	-	+1.121	+1.181	+1.514	+1.172

* A day later in the case of LiveChat

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

Description of the activities of the LiveChat Software Group

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

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

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

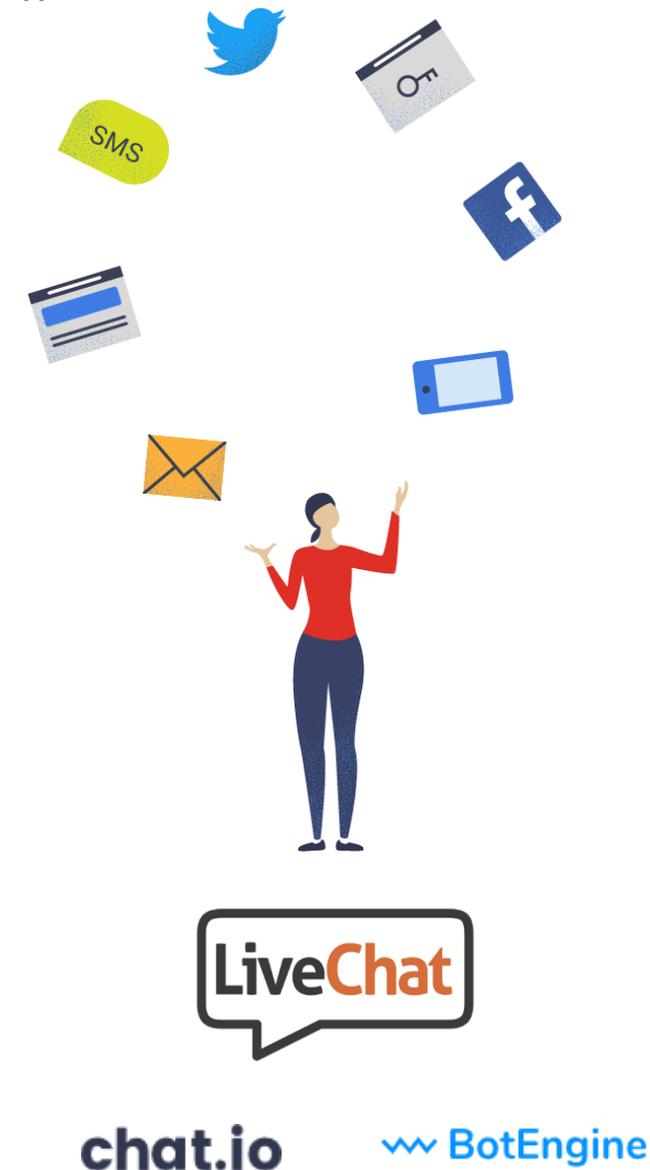
Additionally, the positioning of 'LiveChat' in the premium segment and developing its market position based on features such as the variety of functions and integrations, the quality of customer service, as well as reliability and safety of data rather than price, makes the company resistant to competition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

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

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

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

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



Description of the activities of the LiveChat Software Group

Information about the agreements signed

Agreements which are material for the Group's activities

Agreement with a provider of payment gate services

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

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

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

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

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

Agreement with the provider of payment clearing services

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

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

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

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

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

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

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

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

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

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

Description of the activities of the LiveChat Software Group

Information about the agreements signed

Agreements which are material for the Group's activities

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

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

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

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

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

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

Agreement between LiveChat Inc. and American Express Company

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

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

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

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



Description of the activities of the LiveChat Software Group

Information about the agreements signed

Information about material transactions with related parties

Agreement with LiveChat Inc.

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

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

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

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

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

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

In the six-month period ending September 30, 2017, revenue from sales of LiveChat Inc. totaled PLN 42,573,786 and the total value of expenses invoiced by LiveChat Inc. was PLN 7,699,360. Margins owed to LiveChat Inc. totaled PLN 114,691,03. In 1H 2016, these figures totaled PLN 34,141,242.14, PLN 6,437,713.09 and PLN 88,752.73 respectively.

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

There were no such transactions.

Loan agreements made or terminated

The company had no loan agreements in the period from April 1, 2017 and September 30, 2017

Loans granted

The company has not made any loans.

Guarantees made or received

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

Bond purchase agreements

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

Collaboration or cooperation agreements

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

Insurance agreements

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

Description of ongoing court or administrative proceedings

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

[PLN]	H1 2017/18	H1 2016/17
Sales to LiveChat Inc	42 573 786	34 141 242.14
Cost of services purchased from LiveChat Inc	7 699 360	6 437 713.09

Description of the activities of the LiveChat Software Group

Growth prospects

Market growth prospects

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

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

Group's growth strategy

Product development

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

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

An increase in the customer base

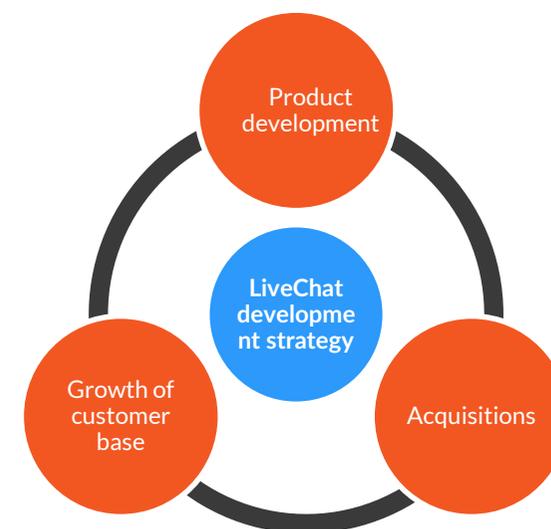
The company is foreseeing further, dynamic growth of the number of clients, based on the following factors:

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

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

Acquisitions

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



Factors affecting company results

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

Financial situation of the LiveChat Software Group

Presentation of consolidated results

Income statement

[PLN]	H1 2017/18	H1 2016/17	Change
Sales	43 613 845	34 547 883	26,2%
Cost of goods sold	6 880 319	5 807 666	18,5%
Gross profit (loss)	36 733 526	28 740 217	27,8%
Cost of sales	3 556 008	3 284 606	8,3%
General management and administration	2 971 436	2 055 085	44,6%
Profit (loss) on sales	30 206 082	23 400 526	29,1%
Other operating income	6 000	6 008	-0,1%
Other operating expenses	3 223	0	-
Operating profit (loss)	30 208 859	23 406 534	29,1%
Financial income	59 939	101 431	-40,9%
Financial expenses	1 589 495	2 331	68 089,4%
Profit (loss) before tax	28 679 302	23 505 634	22,0%
Income tax	5 583 326	4 674 516	19,4%
Net profit (loss)	23 095 976	18 831 118	22,6%

Discussion of the factors which affect company's financial results

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

In the first half of the fiscal year 2017, the number of clients rose by 2686, which represents a 14% increase from the beginning of the year. At the end of the first half the number of clients totaled 21.937 vs. 16.949 the year before, an increase by 29% on a year-on-year basis.

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

Despite an increase in scale, the company is maintaining a high degree of cost discipline.

In the first half of the fiscal year 2017, cost of products sold and the cost of sales were growing at a significantly slower rate than the sales growth. At the same time, general management expenses have reached PLN 3m versus PLN 2.1m the year before.

Changes in the accounting policy

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

Foreign exchange differences arising from the presentation of the company's FX account balance on its balance sheet will be presented as a financial expense rather than, as before, as cost of goods sold. Change in the presentation of such data will have no impact on the company's net result.

As a result of this change, financial expenses have increased by PLN 1.356.000, while the cost of goods sold was adjusted downwards by the same amount. These amounts were negligible in the previous reporting period.

Financial situation of the LiveChat Software Group

Presentation of consolidated results

Balance sheet - assets

[PLN]	September 30, 2017	September 30, 2016	Change
Fixed assets	9 245 136	6 947 109	33,1%
Intangible and legal assets	7 048 980	4 778 735	47,5%
Fixed real assets	655 312	574 240	14,1%
Long-term receivables	10 090	40 090	-74,8%
Deferred income tax assets	293 7644	249 320	1 078,3%
Long-term prepayments	1 206 990	1 304 724	-7,5%
Working capital	24 961 814	16 587 605	50,5%
Inventories	0	0	
Receivables for goods and services sold	811 387	500 002	62,3%
Other receivables	5 220 196	3 389 703	54,0%
Cash and cash equivalents	18 517 552	12 653 421	46,3%
Short-term prepayments	412 679	44 479	827,8%
Total assets	34 206 950	23 534 714	45,3%

Liquid assets predominate in the structure of company's assets. Liquidity ratios continue to stay at very high levels, as presented in the table on page 19.

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

Financial situation of the LiveChat Software Group

Presentation of consolidated results

Balance sheet - liabilities

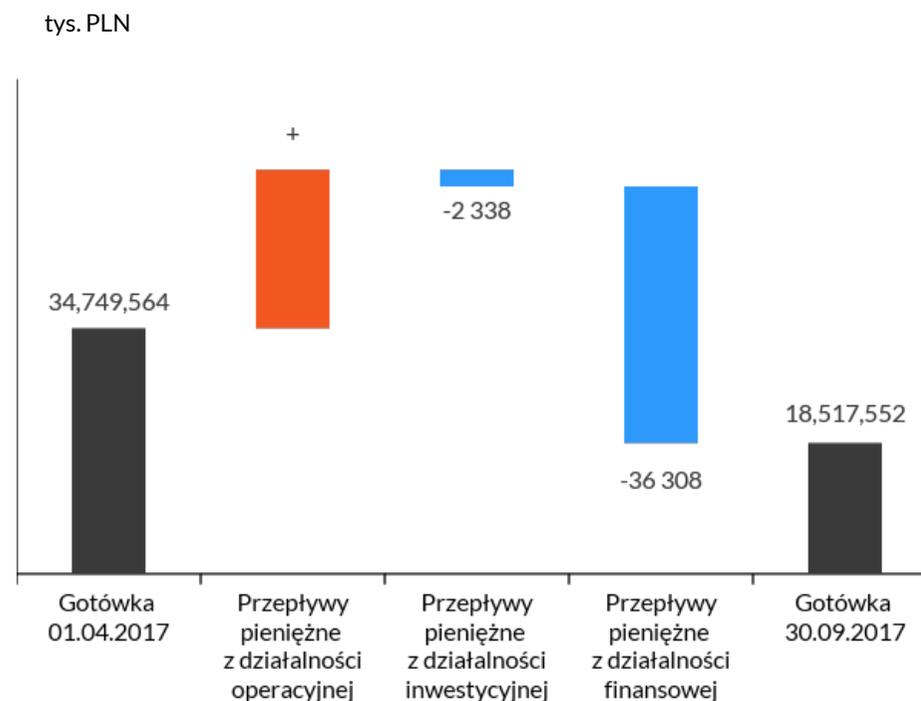
[PLN]	September 30, 2017	September 30, 2016	Change
Own equity	31 397 199	20 593 762	52,5%
Initial equity	515 000	515 000	0,0%
Retained earnings and equity resulting from merger transactions	7 311 156	893 933	717,9%
FX differences	-32 447	-782	4 049,2%
Unallocated equity from the previous years	50 513	354 493	-85,8%
Net profit (loss) for the fiscal year	23 095 976	18 831 118	22,6%
Liabilities and provisions	2 809 752	2 940 952	-4,5%
Long-term liabilities	0	492	-100,0%
Provisions on deferred income tax	0	492	-100,0%
Short-term liabilities	2 809 752	2 940 460	-4,4%
Trade payables	2 785 112	1 046 267	166,2%
Current income tax	19 567	597 008	-96,7%
Other payables	5 072	1 297 185	-99,6%
Total liabilities	34 206 950	23 534 714	45,3%

Financial situation of the LiveChat Software Group

Presentation of consolidated results

Cash position

[PLN]	H1 2016/17	H1 2016/17	Change
Gross profit (loss)	28 679 302	23 505 634	22,0%
Total adjustments, including:	-6 265 604	-4 596 767	36,3%
Depreciation and amortization	1 140 589	752 212	51,6%
Income tax paid	-6 212 000	-4 674 516	32,9%
Cash flow from operating activities	22 413 698	18 908 867	18,5%
Interest received	0	99 100	-100,0%
Investments in intangibles and in real fixed assets	-2 338 210	-1 758 480	33,0%
Cash flow from investing activities	-2 338 210	-1 659 380	40,9%
Dividends paid	-36 307 500	-27 810 000	30,6%
Net cash flow from financing activities	-36 307 500	-27 810 000	30,6%
Total net cash flow	-16 232 012	-10 560 513	53,7%
Cash at the beginning of the period	34 749 564	23 213 934	49,7%
Cash at the end of the period	18 517 552	12 653 421	46,3%



Financial situation of the LiveChat Software Group

Presentation of consolidated results

Dividend policy

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

Description of material off-balance sheet items

The group has no material off-balance sheet items.

Group's financial projection

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

Use of proceeds from the share issue

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

Basic ratios*

Basic financial ratios of the Group in the first half of 2017 fiscal year were as follows:

Gross profit margins: 84.2%

EBITDA: 71,9%

EBIT: 69.3%

net margins: 53,0%.

Return On Equity has reached 150.3% while Return On Assets totaled 137.9%.

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

	H1 2017/18	H1 2016/17
Gross profit margin	84,2%	83,2%
EBITDA	71,9%	69,9%
EBIT	69,3%	67,8%
Net margin	53,0%	54,5%
ROE	150,3%	166,0%
ROA	137,9%	145,3%
Current ratio	8,9	5,6
Quick ratio	8,9	5,6
Cash ratio	6,6	4,3

* Definitions of these ratios are found on page 28

Information about shares and shareholders

Structure of the initial equity

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

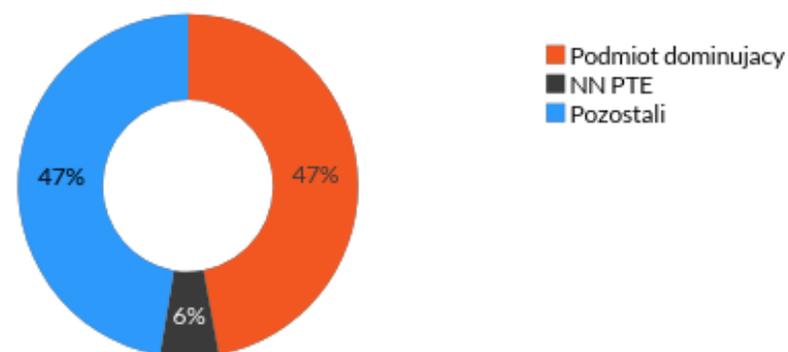
Shareholder structure

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

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

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

Stan na 30 września 2017 r. i 28 listopada 2017 r.



Information about the shares and shareholders

Changes in the shareholder structure

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

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

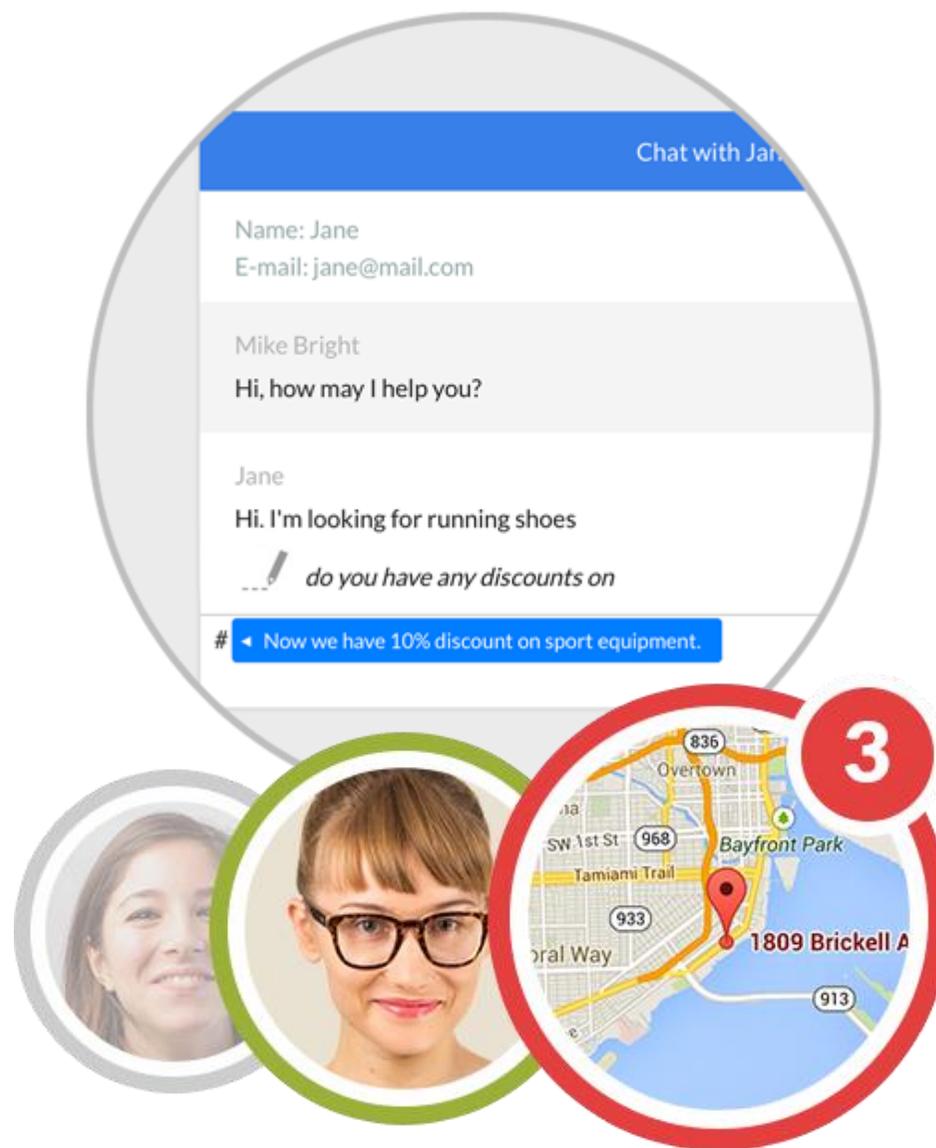
According to the notice received by the company, as a result of these transactions, combined stake held by Copernicus TFI has declined below 5% of the votes at the company's general meeting.

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

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

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

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



Corporate officers

Composition of the company's Managing Board

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

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

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

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

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

Compensation

Compensation of members of the Managing Board of LiveChat Software S.A. in the period between April 1, 2017 and September 30, 2017

First and last name	Role	Compensation (in PLN)
Mariusz Ciepty	CEO	108 000
Urszula Jarzębowska	Board Member	72 000
TOTAL	-	180 000

SHAREHOLDERS

TRANSPARENCY

PRINCIPLES

OGM

MANAGING BOARD

ARTICLES OF ASSOCIATION

SUPERVISORY BOARD

STAKEHOLDERS

TRUST

COLLABORATION

QUALITY

CORPORATE GOVERNANCE

Corporate officers

Membership of the Supervisory Board

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

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

On November 15, 2017, the Company has been notified by Andrzej Różycki about his resignation from the Supervisory Board. Consequently, the Board has been working as a four-person board. The Managing Board has called an Extraordinary Meeting of Shareholders for December 19, 2017 in order to select an additional Member of the Supervisory Board.

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

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

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

Andrzej Różycki has graduated from the Warsaw School of Economics in Warsaw with a degree in Finances and Accounting. Since 2007 serves as a partner at PE fund Tar Heel Capital, where he is responsible for the search and evaluation of new investment projects. At the same time, he manages Innovation Consulting Andrzej Różycki, a company which offers consulting services. Before joining the fund, he was responsible for investor relations at companies listed on the Warsaw Stock Exchange. Has years of experience in the management and supervision over companies from various segments of the economy.

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

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

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

Shares held by members of managing and supervisory bodies

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

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

Other information

Auditing firm

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

Description of legal and administrative proceedings

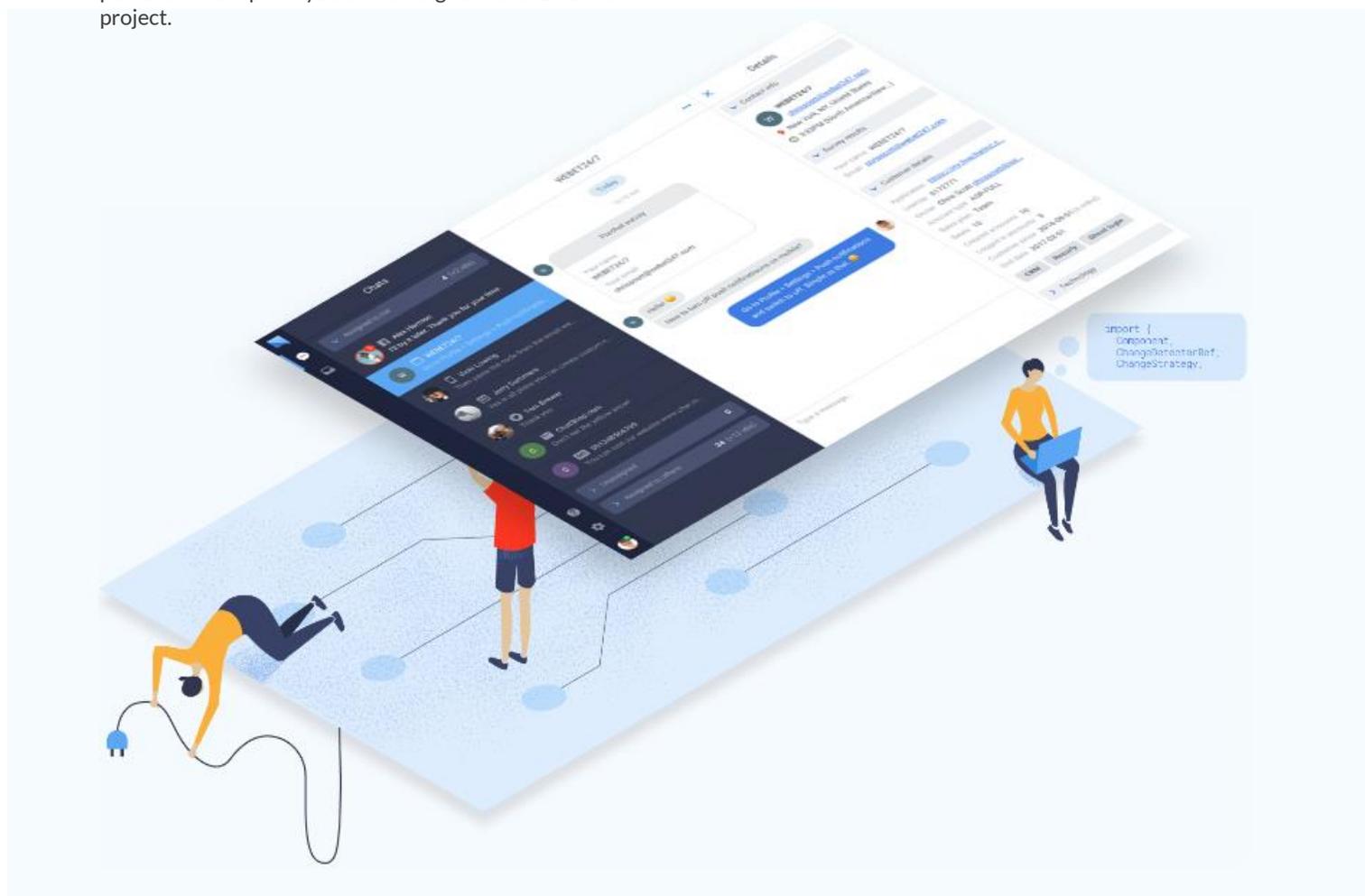
The Group has not been a party of any legal or administrative proceedings in the course of the reporting period.

Environmental issues

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

Information about the employment

At the end of 1H of the fiscal year 2017, the Company had a regular working relationship with 78 persons. The biggest groups include software developers and the customer service department, working in a 24/7 model. The next largest is the marketing department and the smallest team is the Managing Board, Finances and Administration. The Managing Board consists of persons who spent years working on the LiveChat project.



Representation of the Managing Board

Wrocław, November 28, 2017

This six-month, unconsolidated financial report of LiveChat Software S.A., for the six-month period ending on September 30, 2017, has been approved for publication by the Managing Board on November 28, 2017



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Wrocław, November 28, 2017

This six-month, short-form, consolidated financial report of LiveChat Software S.A., for the six-month period ending on September 30, 2017, has been approved for publication by the Managing Board on November 28, 2017

Wrocław, 28 listopada 2017 r.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Glossary

Financial ratios and industry terms and abbreviations

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

The logo features the text "LiveChat" centered within a white speech bubble. The speech bubble has a dark grey outline and a tail pointing downwards and to the left. The background is a solid orange color. The word "Live" is in a bold, black, sans-serif font, and "Chat" is in a bold, orange, sans-serif font.

LiveChat