Interim financial report 2019

Contents

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Half-year management report

Key events in the first half of 2019

The key events in the first half of 2019 were as follows:

- revenue of €138.6 million, profit on operating activities of €2.5 million (1.8% of revenue);
- significant growth in Subscription activity, decrease in License, resilience of Maintenance;
- confirmation of the 2019 annual targets and 2020 ambitions.

Continuation of strategic transformation and investments

In the first half of 2019, Axway continued to implement its transformation strategy to become a market leader in Hybrid Integration Platforms by the end of 2020.

The first six months of 2019 saw several key events:

- presentation and launch of the AMPLIFY platform at the end of the first quarter of 2019;
- reinforcement of the API management offer through the technological acquisition of Streamdata.io in March 2019;
- appointment of Dominique Fougerat, EVP Human Resources, and Cécile Allmacher, Chief Financial Officer;
- acceleration of investments related to the development of the business model:
  - Research & Development investments up +22% compared to the first half of 2018,
  - Sales & Marketing investments up +14% compared to the first half of 2018;
- strengthening of the Customer Success Organisation:
  - appointment of new sales leadership in 3 of the 4 geographic regions in which Axway operates,
  - creation of a go-to-market team for the Group's new offers;
- incentivisation of all employees, aligned with the company's strategy, through the allocation of free shares by 2022.

Business performance in the first half of 2019

Between January and June 2019, Axway generated revenue of €138.6 million, stable organically and up 2.7% in total. Although the scope of consolidation changed only marginally despite the integration of Streamdata.io on 1 April 2019, currency fluctuations had a positive impact of €4.0 million on the Group's half-year revenue. At constant exchange rates, Axway's revenue would have been stable over the first half of the year. Profit on operating activities reached €2.5 million, or 1.8% of revenue, compared with 9.1% in the first half of 2018. This decrease in profitability is mainly due to the significant planned acceleration in operating investments compared to the first half of 2018.

Revenue by business line

(in millions of euros)	1st half 2019	1st half 2018	2018 restated (1)	Total growth	Organic growth
License	21.8	23.8	24.3	-8.3%	-10.3%
Subscription	23.1	18.8	19.7	23.1%	17.2%
Maintenance	72.1	69.9	71.7	3.1%	0.5%
Services	21.5	22.5	23.1	-4.3%	-6.8%
Axway	**138.6**	**134.9**	**138.9**	**2.7%**	**-0.2%**

(1) At 2019 scope and exchange rates.

License revenue amounted to €21.8 million (16% of Group revenue) in the first half of 2019, down 10.3% organically and 8.3% in total. After a first quarter of growth, the License activity suffered from a weaker momentum in the second quarter of 2019. Once again, the Group highlights that the business model shift towards Subscription generated significant changes in the License activity's quarterly revenue. It did not, however, impact the objective of stabilising the Group's total revenue at around €300 million by the end of 2020.

The **Subscription** activity grew organically by 17.2% in the first half of 2019, reaching revenue of €23.1 million (17% of Group revenue). In total, Subscription activity growth was 23.1%. The annual contract value (ACV) of new subscription contracts signed during the first 6 months of the year decreased to €3.5 million from €4.7 million in the first half of 2018. The interest generated by the new offers, combined with the investment efforts dedicated both to strengthening the sales force and promoting the offers, should allow a gradual reacceleration of new signatures growth as we move into 2020.

The **Maintenance** offer generated revenue of €72.1 million (52% of Group revenue) in the first half of 2019. In line with previous announcements and its medium-term ambitions, the Group was able to stabilise revenue from this activity in the first half of the year with an organic increase of 0.5%.

As a result, Axway's recurring revenue, which includes multi-year contracts signed for Subscription and Maintenance activities, totalled €95.2 million in the first half of 2019, or 69% of the Group's revenue, compared with 66% in the first half of 2018.

The **Services** activity saw its revenue reach €21.5 million (15% of Group revenue) in the first half of 2019, an organic decrease of 6.8%. As the strategic refocus of the business on profitability and high value-added contracts comes to an end, the overall trend in the Services market has, not surprisingly, remained negative, in a context of lower License sales.

Revenue by geographic area

(in millions of euros)	1st half 2019	1st half 2018	2018 restated (1)	Total growth	Organic growth
France	40.8	37.3	37.2	9.3%	9.6%
Rest of Europe	31.0	32.4	32.4	-4.4%	-4.4%
Americas	59.4	58.4	62.3	1.7%	-4.7%
Asia/Pacific	7.5	6.8	7.0	9.9%	7.2%
Axway	**138.6**	**134.9**	**138.9**	**2.7%**	**-0.2%**

(1) At 2019 scope and exchange rates.

France generated revenue of €40.8 million in the first half of 2019 (29% of Group revenue), representing organic growth of 9.6%. This strong increase in activity is mainly due to significant growth in License and Subscription activities over the period.

Rest of Europe posted an organic decline of 4.4% over the first half of the year with revenues of €31.0 million (22% of Group revenue). In line with the first quarter of 2019, the Subscription activity grew strongly in all countries in the region, but not enough to offset the decline in License and Services activities.

The **Americas** (USA & Latin America) generated revenue of €59.4 million (43% of Group revenue) in the first half of 2019, an organic decrease of 4.7%. This slowdown is due to limited License demand, which was only attenuated by the slow growth in Subscription.

Finally, in the **Asia-Pacific** region, Axway's revenue amounted to €7.5 million in the first half (6% of Group revenue). This organic growth of 7.2% was due to a marked increase in both License and Subscription activities.

First-half 2019 results

Profit on operating activities in the 1st half of 2019 amounted to 1.8% of revenue, compared to 9.1% in the 1st half of 2018. This decline was primarily due to higher operating expenses. Sales and marketing costs rose by €5.3 million due to the resumption of marketing activity, the development of a Customer Success Management (CSM) team and an Axway Catalyst team, comprising external consultants specialising in API strategy implementation. The rise in operating costs was also attributable to a €5.8 million increase in R&D expenses, following a return to normal staffing levels compared to the understaffing in the 1st half of 2018.

The loss from recurring operations was -€2.7 million in the first half of 2019, i.e. -1.9% of Group revenue, compared to +5.7% period-on-period. It included a €4.3 million expense relating to allocated intangible asset amortization charges, in line with the first half of 2018. It also comprised a €0.9 million expense corresponding to share-based payments, including the new long-term incentive plans set up in 2019 for Executive Committee members and Group employees.

The operating loss amounted to -€3.0 million, i.e. -2.1% of Axway's first-half 2019 revenue, compared to +€5.0 million or +3.7% of first-half 2018 revenue. The €2.5 million decrease in operating income and expenses was due to the restructuring costs recorded in 2018 corresponding to the compensation paid to several departing members of management.

Income tax expense totalled €1.9 million in the first half of 2019, compared to €0.2 million period-on-period.

Axway's net loss amounted to -€6.1 million, i.e. -4.4% of Axway's first-half 2019 revenue.

Basic earnings per share totalled -€0.29 for the period ended 30 June 2019, compared to €0.18 for the period ended 30 June 2018, i.e. a per share decline of €0.47.

	1st half 2019		1st half 2018	
	(in millions of euros)	*(% revenue)*	*(in millions of euros)*	*(% revenue)*
Revenue	**138.6**	**100.0%**	**134.9**	**100.0%**
Costs of sales				
of which License and Maintenance	-11.9	8.6%	-11.7	8.7%
of which Subscription	-13.0	9.3%	-11.2	8.3%
of which Services	-21.1	15.2%	-19.9	14.8%
Total costs of sales	**-45.9**	**33.2%**	**-42.8**	**31.7%**
Gross profit	**92.6**	**66.8%**	**92.1**	**68.3%**
Operating expenses				
of which Sales and Marketing	-44.3	32.0%	-39.0	28.9%
of which Research & Development	-32.6	23.5%	-26.8	19.9%
of which General and Administrative	-13.3	9.6%	-14.0	10.4%
Total operating expenses	**-90.2**	**65.1%**	**-79.8**	**59.1%**
Profit/loss on operating activities	**2.5**	**1.8%**	**12.3**	**9.1%**
Share-based payment expense	-0.9		-0.4	
Amortisation of intangible assets	-4.3		-4.1	
Profit/loss from recurring operations	**-2.7**	**-1.9%**	**7.8**	**5.7%**
Other income and expenses	-0.3		-2.8	
Operating profit/loss	**-3.0**	**-2.1%**	**5.0**	**3.7%**
Costs of net financial debt	-0.9		-0.5	
Other financial income and expense	-0.3		-0.4	
Income tax expense	-1.9		-0.2	
Net profit/loss	**-6.1**	**-4.4%**	**3.9**	**2.9%**
Basic earnings per share *(in €)*	**-0.29**		**0.18**	

Group financial position

At 30 June 2019, Axway had a solid financial position, with cash of €32.3 million and bank debt of €44.6 million. Bank debt covenants were met in the first half of 2019.

Free cash flow amounted to €4.7 million in the first half of 2019, compared with €21.8 million period-on-period. This decrease was due to the €13 million decline in the change in WCR in the first half of 2019, compared to the previous year, that was mainly attributable to the fall in deferred income and supplier credit.

Shareholders' equity was €356.4 million at 30 June 2019.

Main risks and uncertainties for the second half of 2019

The level and nature of risks to which the Group is subject are unchanged compared to the risk factors set out on pages 40 to 46 of the 2018 Registration Document.

Changes in the economic climate are one of the main factors likely to influence the course of business during the second half of 2019.

2019 Targets & 2020 Outlook

For 2019, the Group confirms that it anticipates:

- a return to organic business growth that should continue into 2020 and enable Axway to achieve revenue of around €300 million;
- an operating margin on business activity of between 8% and 10%, representing a low point during the transformation of the business model, before a rebound in profitability expected in 2020.

Events after the reporting period

Between 1 July 2019 and the date of the Board of Directors' meeting, there were no significant events likely to impact the financial statements.

Glossary – Alternative Performance Measures

Restated revenue: Revenue for the prior year, adjusted for the consolidation scope and exchange rates of the current year.

Organic growth: Growth in revenue between the period under review and the prior period, restated for consolidated scope and exchange rate impacts.

Growth at constant exchange rates: Growth in revenue between the period under review and the prior period restated for exchange rate impacts.

ACV: Annual Contract Value – Average annual value of a subscription contract.

TCV: Total Contract Value – Full value of a Subscription agreement including both recurring revenue over the contract term and one-time payments.

Signature metric: Amount of License sales plus three times the annual value (3xACV) of new Subscription contracts signed over a given period.

Profit on operating activities: Profit from recurring operations adjusted for the share-based payment expense for stock options and free shares, as well as the amortization of allocated intangible assets.

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Condensed interim consolidated financial statements

Consolidated income statement

(in thousands of euros)	Notes	1st half 2019 Amount	1st half 2018 Amount
Revenue	**3, 4**	**138,586**	**134,938**
Employee costs	5	-90,505	-87,769
Purchases and external expenses	6	-39,108	-38,144
Taxes and duties		-1,085	-1,236
Depreciation and amortisation, provisions and impairment		-6,493	-2,949
Other current operating income and expenses		1,070	7,459
Profit on operating activities		**2,464**	**12,298**
As % of revenue excl. VAT		***1.8%***	***9.1%***
Share-based payment expense	7	-893	-439
Amortisation of allocated intangible assets		-4,255	-4,109
Profit from recurring operations		**-2,684**	**7,750**
As % of revenue excl. VAT		***-1.9%***	***5.7%***
Other operating income and expenses	8	-283	-2,796
Operating profit		**-2,966**	**4,954**
As % of revenue excl. VAT		***-2.1%***	***3.7%***
Costs of net financial debt	9	-914	-475
Other financial income and expense	9	-314	-402
Income tax expense	10	-1,897	-218
Profit for the period from continuing operations		**-6,091**	**3,859**
Net profit for the period		**-6,091**	**3,859**
As % of revenue excl. VAT		***-4.4%***	***2.9%***
of which attributable to non-controlling interests		-0	-0
of which attributable to owners of the Company		**-6,091**	**3,859**

Net income per share – attributable to owners of the Company

(in euros)	Notes	1st half 2019	1st half 2018
Basic earnings per share	**11**	**-0.29**	**0.18**
Diluted earnings per share	**11**	**-0.28**	**0.18**

Statement of comprehensive income

(in thousands of euros)	1st half 2019	1st half 2018
Consolidated profit for the period	**-6,091**	**3,859**
Other comprehensive income		
Actuarial gains and losses on pension plans	-864	157
Tax impact	277	-54
Sub-total items that will not be reclassified subsequently to profit or loss	**-587**	**103**
Share attributable to non-controlling interests	0	-0
Exchange differences on translating foreign operations	866	5,322
Sub-total items that may be reclassified subsequently to profit or loss	**866**	**5,322**
Total other comprehensive income, net of tax	**279**	**5,425**
Total comprehensive income	**-5,812**	**9,284**
of which attributable to non-controlling interests	0	-0
of which attributable to owners of the Company	**-5,812**	**9,284**

Consolidated statement of financial position

Assets *(in thousands of euros)*	**Notes**	**30/06/2019**	**31/12/2018**
Goodwill	12	347,171	344,090
Intangible assets		37,732	42,322
Property, plant and equipment		13,304	13,402
Lease right-of-use assets	13	23,871	-
Non-current financial and other assets		3,744	3,526
Deferred tax assets		20,159	19,394
Non-current assets		**445,982**	**422,734**
Inventories		88	91
Trade receivables	14	52,846	65,565
Other current receivables		38,329	29,634
Cash and cash equivalents	16	32,266	35,784
Current assets		**123,529**	**131,074**
Total assets		**569,510**	**553,808**

Equity and liabilities *(in thousands of euros)*	**Notes**	**30/06/2019**	**31/12/2018**
Share capital		42,451	42,451
Capital reserves		110,976	110,976
Consolidated reserves		209,036	198,329
Profit for the period		-6,091	10,993
Equity – attributable to owners of the Company		**356,372**	**362,749**
Non-controlling interests		**1**	**1**
Total equity	**15**	**356,373**	**362,751**
Financial debt – long-term portion	16	39,531	41,774
Lease liabilities – long-term portion	13	22,060	-
Deferred tax liabilities		574	582
Other non-current liabilities		9,901	10,827
Non-current liabilities		**72,067**	**53,184**
Financial debt – short-term portion	16	5,022	4,238
Lease liabilities – short-term portion	13	6,422	-
Trade accounts payables		11,680	15,441
Deferred income	17	85,631	75,232
Other current liabilities	18	32,316	42,963
Current liabilities		**141,070**	**137,874**
Total liabilities		**213,137**	**191,057**
Total equity and liabilities		**569,510**	**553,808**

Statement of changes in equity

(in thousands of euros)	Share capital	Capital reserves	Treasury shares	Reserves and consolidated profit	Other comprehensive income	Attributable to owners of the Company	Attributable to non-controlling interests	Total
Equity at 30/06/2018	**42,448**	**121,688**	**-748**	**172,064**	**18,455**	**353,906**	**2**	**353,908**
Capital transactions	3	20	-	-	-	23	-	23
Share-based payments	-	-10,732	-	11,459	-	727	-	727
Transactions in treasury shares	-	-	-128	-4	-	-131	-	-131
Ordinary dividends	-	-	-	-4,237	-	-4,237	-	-4,237
Changes in scope of consolidation	-	-	-	-	-	-	-	-
Other movements	-	-	-	21	-37	-16	-1	-16
Transactions with shareholders	**3**	**-10,712**	**-128**	**7,239**	**-37**	**-3,634**	**-1**	**-3,634**
Profit for the period	-	-	-	7,134	-	7,134	-	7,134
Other comprehensive income	-	-	-	-	5,342	5,342	-	5,342
Total comprehensive income for the period	**-**	**-**	**-**	**7,134**	**5,342**	**12,476**	**-**	**12,476**
Equity at 31/12/2018	**42,451**	**110,976**	**-876**	**186,437**	**23,760**	**362,749**	**1**	**362,751**
Capital transactions	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	837	-	837	-	837
Transactions in treasury shares	-	-	42	-1,186	-	-1,144	-	-1,144
Ordinary dividends	-	-	-	-	-	-	-	-
Changes in scope of consolidation	-	-	-	-	-	-	-	-
First-time application of IFRS 16	-	-	-	-664	-	-664	-	-664
Other movements	-	-	-	409	-1	408	0	408
Transactions with shareholders	**-**	**-**	**42**	**-605**	**-1**	**-564**	**0**	**-564**
Profit for the period	-	-	-	-6,091	-	-6,091	-	-6,091
Other comprehensive income	-	-	-	-	279	279	0	279
Total comprehensive income for the period	**-**	**-**	**-**	**-6,091**	**279**	**-5,812**	**0**	**-5,812**
Equity at 30/06/2019	**42,451**	**110,976**	**-834**	**179,741**	**24,038**	**356,372**	**1**	**356,373**

Statement of cash flows

(in thousands of euros)	Notes	1st half 2019	1st half 2018
Consolidated profit for the period (including share attributable to non-controlling interests)		**-6,091**	**3,859**
Net charges to depreciation, amortisation and provisions		10,056	6,432
Unrealised gains and losses relating to changes in fair value		-0	-
Share-based payment expense and income	7	837	439
Gains and losses on disposal		116	555
Cash from operations after cost of net financial debt and tax		**4,918**	**11,284**
Costs of net financial debt	9	914	475
Income tax expense (including deferred tax)	10	1,897	218
Cash from operations before cost of net financial debt and tax (A)		**7,729**	**11,978**
Tax paid (B)		-2,101	-2,509
Changes in operating working capital requirements (including liabilities related to employee benefits) (C)		2,993	16,016
Net cash from operating activities (D) = (A+B+C)		**8,621**	**25,485**
Purchases of intangible assets and PP&E		-3,164	-3,255
Proceeds from sale of intangible assets and PP&E		-2	-
Change in lease right-of-use assets	13	-209	-
Impact of changes in the scope of consolidation	12	-1,123	-
Change in loans and advances granted		-63	86
Other cash flows from investing activities		79	-
Net cash from (used in) investing activities (E)		**-4,481**	**-3,168**
Proceeds from the exercise of stock options		-	208
Purchase and proceeds from disposal of treasury shares	7	-1,164	-
Proceeds from borrowings		-	81
Repayment of borrowings	16	-2,257	-2,290
Change in lease liabilities	13	-2,901	-
Net interest paid (including finance leases)		-791	-475
Other cash flow relating to financing activities		-696	-
Net cash from (used in) financing activities (F)		**-7,809**	**-2,476**
Effect of foreign exchange rate changes (G)		24	-440
Net change in cash and cash equivalents (D+E+F+G)		**-3,644**	**19,400**
Opening cash position		35,772	28,137
Closing cash position		32,128	47,537

The closing cash position is equal to Cash and cash equivalents less bank overdrafts.

Notes to the condensed interim consolidated financial statements

Contents for the notes to the consolidated financial statements

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Note 1 Accounting principles

The condensed interim consolidated financial statements for the half-year ended 30 June 2019, together with the accompanying notes, were prepared under the responsibility of the Board of Directors and approved at its meeting of 24 July 2019.

1.1 Basis of preparation of the condensed interim consolidated financial statements

The consolidated financial statements for the half-year ended 30 June 2018 were prepared in accordance with IAS 34, *Interim Financial Reporting*, the IFRS published by the IASB (International Accounting Standards Board) and adopted by the European Union.

The accounting policies underlying the preparation of the condensed interim consolidated financial statements for the half-year ended 30 June 2019 are identical to those adopted for the consolidated financial statements for the year ended 31 December 2018 and described in Chapter 4, Note 1 of the 2018 Registration Document filed on 26 April 2019 with the French Financial Markets Authority (AMF) under no. D. 18-0393 and available on the Company's website at http://www.investors.axway.com, except for the new standards and interpretations applicable from 1 January 2019 and presented in Note 1.2.

These condensed interim consolidated financial statements are presented in thousands of euros, unless indicated otherwise.

1.2 Application of new standards and interpretations

The accounting policies and principles applied in these condensed interim consolidated financial statements are identical to those used to prepare the consolidated financial statements for the year ended 31 December 2018, except for provisions specific to the preparation of interim financial statements:

- retirement commitments for the period were estimated using actuarial studies carried out for the 2018 financial year, updated for the first half of 2019.

The new standards, amendments to existing standards and interpretations of mandatory application in fiscal years beginning on or after 1 January 2019 were as follows:

- IFRS 16, *Leases*;
- IFRIC 23, *Uncertainty over income tax treatments*.

The implementation of these changes is described in Notes 1.2.1 and 1.2.2, respectively.

1.2.1 Impact of the first-time application of IFRS 16, *Leases*

IFRS 16, *Leases*, replaces IAS 17, *Leases*, and the related interpretations. It entered into effect on 1 January 2019. This standard provides for a single lease accounting model for lessees, with the recognition of a non-current asset and a lease liability for the majority of contracts and no longer for finance leases only.

The Group implemented a plan including an initial phase of collecting all information required by the new standard and simulating the impacts of the different options it offers. This was followed by a second, more operational, phase comprising the roll-out and implementation of changes to enable application of the standard at 1 January 2019.

The Group chose to apply the standard to all identified leases using the modified retrospective approach and recognising the cumulative impact of first-time application at 1 January 2019 as follows:

- recognition of a lease liability for each contract equal to the present value of future lease payments discounted at the lessee's incremental borrowing rate at 1 January 2019, based on the initial lease term;
- recognition of a "right-of-use asset" equal to:
  - either the carrying amount of the asset if IFRS 16 was applied at the date of inception of the lease, but using the incremental borrowing rate at the date of first-time application (1 January 2019) as the discount rate and the initial lease term. Axway has adopted this approach for leases of premises, including rent-free periods and substantial refurbishment work that may only be collected after the date of first-time application,
  - or the lease liability, adjusted for prepaid or accrued lease payments, as presented in the balance sheet immediately before the date of first-time application. This approach has been adopted by Axway for leases not including rent-free periods or significant refurbishment work.

In accordance with the transition method provisions, the Group did not restate the prior period financial statements presented in comparison to the 30 June 2019 interim financial statements.

The Group applied lease terms corresponding to the non-cancellable period of each lease, systematically assessing whether the exercise of extension or early termination options provided for contractually was reasonably certain.

In addition, the Group chose to use the exemptions provided in the standard and not to apply the above recognition principles to the relevant leases, i.e. short-term leases (less than 12 months) and leases of low-value assets. It elected not to apply the practical expedient enabling lease components not to be separated from non-lease components for a category of underlying assets. It also elected not to exclude from the new rules leases with a residual term of less than 12 months at the date of first-time application.

Finally, the Group chose to exclude initial direct costs from the measurement of the right-of-use asset at the date of first-time application.

Assets and liabilities identified on the first-time application of IFRS 16 gave rise to the recognition of deferred tax liabilities and assets, respectively, at the transition date.

At 1 January 2019, the application of IFRS 16, *Leases*, therefore led to the recognition of lease right-of-use assets and lease liabilities in the balance sheet, with the difference recognised in equity. The impact breaks down as follows:

Impact of application of IFRS 16 in the Balance Sheet

(in thousands of euros)	Impact of first-time application of IFRS 16
Assets	
Right-of-use asset – leased premises	26,013
Right-of-use asset – leased vehicles	769
Total Lease right-of-use assets	**26,781**
Deferred tax	236
Non-current assets	**27,017**
Current assets	**-2,433**
Total assets	**24,584**

(in thousands of euros)	Impact of first-time application of IFRS 16
Equity and liabilities	
Consolidated reserves	-664
Profit for the period	-
Equity – attributable to owners of the Company	**-664**
Non-controlling interests	-
Total equity	**-664**
Lease liabilities – long-term portion	25,122
Non-current liabilities	**25,122**
Lease liabilities – short-term portion	6,211
Trade payables	-3,976
Other current liabilities	-2,108
Current liabilities	**127**
Total liabilities	**25,248**
Total equity and liabilities	**24,584**

The difference between total lease liabilities and operating lease off-balance sheet commitments disclosed at 31 December 2018 breaks down as follows:

(in thousands of euros)	At 1 January 2019
Lease commitments at 31/12/2018 as presented in the consolidated financial statements	**35,769**
IFRS 16 exemption for leases of low-value assets	-
IFRS 16 exemption for leases of less than 12 months	-894
Exclusion of the service component integrated in lease payments	-1,050
Impact of reverse discounting at the rate at 1 January 2019	-2,492
Lease liabilities recognised at 1 January 2019 pursuant to IFRS 16	**31,333**

The application of IFRS 16, *Leases*, has a marginally positive impact on Profit on operating activities, following the replacement of lease expenses by slightly lower depreciation of lease right-of-use assets. EBITDA, which contributes to the analysis of the Change in net financial debt, is substantially modified (positive impact of €3.5 million at 30 June 2019) due to the restatement of the lease expense. Other financial expenses are also modified as they now include net interest on lease liabilities.

Furthermore, the Group has elected to exclude lease liabilities from Net financial debt. Available net cash flow determined in the Change in net financial debt is therefore comparable with that of prior years.

Finally, the financial covenants disclosed in Note 16 will not be impacted by the application of IFRS 16, *Leases*, as they are calculated using a constant method.

1.2.2 Impact of first-time application of IFRIC 23, *Uncertainty over income tax treatments*

The Group has applied the provisions of this new interpretation retrospectively at 1 January 2019, without adjusting prior period financial statements presented in comparison. Application of this standard had no impact on Group equity and led to the reclassification in tax liabilities of the provision for tax risks concerning the current tax expense. €0.5 million was reclassified at 1 January 2019.

Note 2 Key events and scope of consolidation

Changes in the scope of consolidation

a. Deconsolidated entities

No entities were deconsolidated in the first six months of 2019.

b. Newly-consolidated entities

On 21 March 2019, Axway Software acquired the entire share capital of Streamdata.io in France. Streamdata.io holds all the shares of its U.S. subsidiary, Streamdata.io Inc.

Streamdata.io's activities are consolidated in the Axway financial statements from 1 April 2019.

Notes to the consolidated income statement

Note 3 Segment reporting

3.1 Revenue by business line

(in thousands of euros)	1st half 2019		1st half 2018	
Licenses	21,822	15.7%	23,721	17.6%
Subscription	23,138	16.7%	18,679	13.8%
Maintenance	72,099	52.0%	69,892	51.8%
Services	21,527	15.5%	22,647	16.8%
Total revenue	**138,586**	**100.0%**	**134,938**	**100.0%**

3.2 Revenue by region

(in thousands of euros)	1st half 2019		1st half 2018	
Europe	71,748	51.8%	69,653	51.6%
Americas	59,367	42.8%	58,415	43.3%
Asia Pacific	7,470	5.4%	6,870	5.1%
Total revenue	**138,586**	**100.0%**	**134,938**	**100.0%**

Note 4 Revenue

4.1 Revenue recognition

The application of IFRS 15, *Revenue from contracts with customers*, is presented in Chapter 4, "Consolidated financial statements", Note 4.1.1, "Revenue recognition", of the 2018 Registration Document.

Additionally, a new "Customer Managed" offering has been developed since 2019, in response to growing customer demand. Revenue from "Customer Managed" services included in Software as a Service contracts is recognised as follows:

The "Customer Managed" offering is a Hybrid Integration Platform offering, sold to customers as a service package comprising:

- Software as a Service components, hosted by Axway;
- on-premise components hosted by the customer.

Three separate performance obligations have therefore been identified: License, Maintenance and Subscription. Pursuant to IFRS 15, revenue is recognised using three different methods:

- Software as a Service services, updated, maintained and hosted by Axway, are recognised on a straight-line basis over the contract term (single performance obligation);
- on-premise services are recognised on delivery, i.e. when control of the on-premise license is transferred. These items are hosted by the customer as for standard licenses. Revenue is therefore recognised using the same model as for standard on-premise **licenses**, i.e. a license component (performance obligation recognised in full on the transfer of control and provision of the keys) and a **maintenance** component (related performance obligation recognised over the contract term).

4.2 Revenue by business line

(in thousands of euros)	1st half 2019		1st half 2018	
Licenses	21,822	15.7%	23,721	17.6%
Subscription	23,138	16.7%	18,679	13.8%
Maintenance	72,099	52.0%	69,892	51.8%
Services	21,527	15.5%	22,647	16.8%
Total revenue	**138,586**	**100.0%**	**134,938**	**100.0%**

4.3 International operations

(in thousands of euros)	1st half 2019		1st half 2018	
France	40,774	29.4%	37,205	27.6%
Rest of Europe	30,975	22.4%	32,448	24.0%
Americas	59,367	42.8%	58,415	43.3%
Asia Pacific	7,470	5.4%	6,870	5.1%
Total revenue	**138,586**	**100.0%**	**134,938**	**100.0%**

Note 5 Employee costs

5.1 Breakdown of employee costs

(in thousands of euros)	1st half 2019	1st half 2018
Salaries	76,448	70,753
Social security contributions	18,060	16,727
Research tax credits	-4,435	-5,155
Employee profit-sharing	359	289
Net expense for post-employment and similar benefit obligations	73	-
Total	**90,505**	**82,614**

Presentation change: From fiscal year 2018, the Group records Axway Software SA's research tax credit in France in "Employee costs" and the change in pension provisions in "Net expense for post-employment and similar benefit obligations". These amounts were previously recorded in "Other current operating income and expenses" and "Depreciation and amortisation, provisions and impairment", respectively. The 1st half of 2018 has been restated above.

Employee costs are up 9.5% due to an increase in the workforce (+108 employees), in the Research & Development, Services and Subscription departments.

Presentation of employee costs before restatement, using the 2018 interim financial report format and excluding Axway Software SA research tax credits and post-employment benefits:

(in thousands of euros)	1st half 2019	1st half 2018
Salaries	76,448	70,753
Social security contributions	18,060	16,727
Employee profit-sharing	359	289
Total	**94,867**	**87,769**

5.2 Workforce

Number of employees at 30 June	1st half 2019	1st half 2018
France	452	467
International	1,436	1,313
Total	**1,888**	**1,780**

At 30 June 2019, Axway had 1,888 employees (24% in France and 76% internationally), compared to 1,848 at 31 December 2018 and 1,780 at 30 June 2018.

Average number of employees	1st half 2019	1st half 2018
France	457	489
International	1,429	1,299
Total	**1,886**	**1,787**

Note 6 Purchases and external expenses

Purchases *(in thousands of euros)*	1st half 2019	1st half 2018
Purchases of sub-contracting services	10,824	9,519
Purchases not for inventory of equipment and supplies	1,394	729
Purchases and change in stock of merchandise	2,476	1,652
Total	**14,693**	**11,900**

The increase in purchases of sub-contracting services (cloud hosting) is due to the development of the Subscription business line.

External charges *(in thousands of euros)*	**1st half 2019**	**1st half 2018**
Rent and rental charges	5,028	4,649
Lease expenses – IFRS 16 adjustment	-3,470	-
Maintenance and repairs	3,557	3,143
External personnel	156	11
Remuneration of intermediaries and fees	2,714	3,372
Advertising and public relations	2,166	1,635
Travel and entertainment	5,099	5,678
Telecommunications	1,220	1,193
Sundry	7,946	6,563
Total	**24,415**	**26,244**

The decrease in other expenses and external expenses is mainly due to the application of IFRS 16, which generates a reduction in lease expenses of €3.5 million.

Note 7 Share-based and similar payment expenses

Two new free share plans were launched on 16 January 2019, in addition to the existing plans described in Chapter 4, "Consolidated financial statements", Note 5.4.b, of the 2018 Registration Document.

The first new plan is open to Group employees, while the second plan concerns four members of the Axway Executive Committee.

The share-based payment expense in respect of free performance share grant plans, including the new plans, is €0.9 million in the first half of 2019, compared to €0.4 million in the first half of 2018.

The June 2016 free share grant plan was settled in the first half of 2019 with the presentation of 57,480 treasury shares to the Axway Leadership team, members of the Executive Committee and other persons regarded as key for the Axway Group. These treasury shares were purchased by the Group from third parties on the market for a total of €1.164 million.

Note 8 Other operating income and expenses

Restructuring and reorganisation measures implemented in recent years were completed at the end of 2018.

Restructuring expenses were limited to €88 thousand in the first half of 2019. Expenses relating to the acquisition of Streamdata.io totalled €195 thousand.

Note 9 Financial income and expense

9.1 Cost of net financial debt

(in thousands of euros)	1st half 2019	1st half 2018
Income from cash management	79	48
Interest expense	-579	-523
Net interest on lease liabilities – IFRS 16	-415	-
Total	**-914**	**-475**

The application of IFRS 16 increased the cost of net financial debt by €0.4 million in the first half of 2019.

9.2 Other financial income and expenses

(in thousands of euros)	1st half 2019	1st half 2018
Foreign exchange gains and losses	**-143**	**-768**
Reversal of provisions	-	-0
Other financial income	0	-
Total foreign exchange gains/losses and other financial income	**-143**	**-768**
Charges to provisions	-0	211
Discounting of retirement benefit commitments	-53	-48
Fair value gains (losses) on derivatives	148	205
Other financial expenses	-266	-2
Total other financial expenses	**-170**	**366**
Total other financial income and expense	**-314**	**-402**

Note 10 Income tax expense

(in thousands of euros)	1st half 2019	1st half 2018
Current tax	-2,043	-2,260
Deferred tax	146	2,042
Total	**-1,897**	**-218**

The income tax expense of €1.9 million for the first half of 2019 represents an effective tax rate of -45% for the Group.

Deferred tax assets arising from tax losses carried forward are recognised if the subsidiaries or the tax consolidation group are likely to have sufficient taxable earnings to use them.

Axway Software:

At 30 June 2019, capitalised tax losses stood at €5.6 million (in deferred tax assets), compared to €6.3 million at 31 December 2018. Profits generated by Axway Software in France in the first half of 2019 enabled the offset of €0.7 million in tax losses.

Axway Inc.:

At 30 June 2019, capitalised tax losses stood at US$15.0 million (in deferred tax assets), compared to US$15.0 million at 31 December 2018. We did not capitalise any additional tax losses in the first half of 2019 compared to 31 December 2018.

At 30 June 2019, **deferred tax assets not capitalised** in respect of tax losses available for carry forward amounted to €23.4 million and concerned the following subsidiaries: Axway Inc. in the United States (€15.9 million), Axway SRL in Italy (€2.7 million), Axway Software Do Brazil Ltda in Brazil (€1.5 million), Axway Pte Ltd in Singapore (€0.8 million), Axway Romania (€1.4 million), Axway Hong Kong (€0.6 million) and Axway UK (€0.2 million). Streamdata.io tax losses available for carry forward in France are currently being assessed.

Note 11 Earnings per share

(in euros)	1st half 2019	1st half 2018
Net profit – attributable to owners of the Company	-6,091,077	3,858,793
Weighted average number of ordinary shares outstanding	21,225,381	21,218,257
Basic earnings per share	**-0.29**	**0.18**

(in euros)	1st half 2019	1st half 2018
Net profit – attributable to owners of the Company	-6,091,077	3,858,793
Weighted average number of ordinary shares outstanding	21,225,381	21,218,257
Weighted average number of securities taken into account in respect of dilutive items	679,008	625,408
Weighted average number of shares taken into account to calculate diluted net earnings per share	21,904,389	21,843,665
Diluted earnings per share	**-0.28**	**0.18**

Notes to the consolidated balance sheet

Note 12 Goodwill

Movements in the first half of the year were as follows:

(in thousands of euros)	Gross value	Impairment	Net
31 December 2018	**352,703**	**8,612**	**344,090**
Acquisition of Streamdata.io	2,208	-	2,208
Translation adjustments	821	-52	874
30 June 2019	**355,732**	**8,560**	**347,171**

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Goodwill recognised in the first half of 2019 concerns the acquisition of Streamdata.io.

Translation adjustments mainly relate to fluctuations in the Euro against the U.S. dollar.

Axway Software acquired the entire share capital of Streamdata.io in France on 21 March 2019. Streamdata.io holds all the shares of its U.S. subsidiary, Streamdata.io Inc.

Streamdata.io's activities are consolidated in the Axway financial statements from 1 April 2019.

Streamdata.io technologies are in the course of valuation at 30 June 2019. Additionally, following the acquisition of Streamdata.io, an authorisation request for the transfer of €10 million in tax losses was filed with the French tax authorities in June 2019. Authorisation is currently pending.

Pursuant to IFRS 3 revised, the valuation period may not extend beyond 20 March 2020.

Provisional goodwill in respect of this acquisition was determined based on the following items:

(in thousands of euros)	At 30/06/2019
Acquisition price	1,538
Discounted value of earn-outs	-
Acquisition cost	**1,538**
Net assets acquired, excluding existing goodwill	-670
Allocated intangible assets, net of deferred tax	-
Goodwill	**2,208**

Streamdata.io provisional net assets break down as follows:

(in thousands of euros)	Net carrying amount in the seller	Restatements	Fair value
Intangible assets	1	-	1
Property, plant and equipment	6	-	6
Financial assets	11	-	11
Deferred tax assets	-	-	-
Current assets	194	-	194
Cash and cash equivalents	415	-	415
Financial liabilities	-505	-	-505
Provision for post-employment benefits	-129	-	-129
Current liabilities	-662	-	-662
Net assets acquired	**-670**	**-**	**-670**

Note 13 Leases

13.1 Lease right-of-use assets by category

(in thousands of euros)	Leased premises	Leased vehicles	Total
Gross value			
31 December 2018	**-**	**-**	**-**
First-time application of IFRS 16	25,877	769	26,646
Change in scope of consolidation	135	-	135
Additions	-	226	226
Disposals – assets scrapped	-	-32	-32
Other movements	-	-	-
Translation adjustments	29	-0	29
30 June 2019	**26,042**	**964**	**27,005**
Depreciation			
31 December 2018	**-**	**-**	**-**
First-time application of IFRS 16	-	-	-
Change in scope of consolidation	-0	-	0
Charge	-2,942	-215	-3,157
Disposals – assets scrapped	-	14	14
Other movements	-	-	-
Translation adjustments	9	0	9
30 June 2019	**-2,933**	**-201**	**-3,134**
Net carrying amount			
31 December 2018	**-**	**-**	**-**
30 June 2019	**23,109**	**763**	**23,871**

13.2 Debt maturity of lease liabilities

				Breakdown of non-current liabilities				
(in thousands of euros)	Carrying amount	Current	Non-current	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Lease liabilities	**28,482**	**6,422**	**22,060**	**4,720**	**3,690**	**3,527**	**3,025**	**7,098**

The interest expense on lease liabilities in the first half of 2019 is €0.4 million (see Note 9.1.).

Note 14 Trade receivables and related accounts

(in thousands of euros)	30/06/2019	31/12/2018
Trade receivables and related accounts	45,209	61,863
Accrued income	9,233	5,100
Provision for doubtful receivables	-1,596	-1,399
Total	**52,846**	**65,565**

Net trade receivables, expressed in days sales outstanding (DSO), corresponds to 61 days at 30 June 2019, comparable to DSO at 30 June 2018. This ratio is calculated by comparing “Net trade receivables” with revenue generated during the period.

The €16.6 million decrease in Trade receivables is mainly due to revenue seasonality. The number of new receivables generated is higher in the fourth quarter when annual maintenance invoices are issued.

Note 15 Equity

15.1 Changes in the share capital

At 31 December 2018, the share capital stood at €42,450,762, and comprised 21,225,381 fully paid-up shares with a par value of €2.00 each.

No share subscription options were exercised in the first half of 2019, leading to the creation of new shares.

At 30 June 2019, the share capital therefore stood at €42,450,762 comprising 21,225,381 fully-paid up shares with a par value of €2.00 each.

15.2 Dividends

The General Shareholders’ Meeting of Axway Software held on 5 June 2019 to approve the 2018 financial statements approved a dividend of €0.40 per share, representing a total of €8.5 million.

This dividend was paid on 4 July 2019, net of the dividend attributable to treasury shares.

Note 16 Financial liabilities – Net debt

Net debt is €12.3 million at 30 June 2019, compared to €10.2 million at 31 December 2018 and breaks down as follows:

(in thousands of euros)	Current	Non-current	30/06/2019	31/12/2018
Bank borrowings	4,880	39,531	44,411	45,986
Other financial liabilities	3	-0	3	18
Bank overdrafts	139	-	139	8
Financial debt	**5,022**	**39,531**	**44,553**	**46,012**
Investment securities	-	-	-	-1,048
Cash and cash equivalents	-32,266	-	-32,266	-34,736
Net debt	**-27,244**	**39,531**	**12,287**	**10,227**

The Group has a €125 million multi-currency revolving credit facility (RCF). An “Amendment and maturity extension” agreement was signed on 31 January 2019, reducing the margin scale and relaxing the financial covenants. The maturity of the credit facilities was extended to January 2024. In addition, the banks granted the Group increased flexibility for acquisitions of less than €50 million, for which no prior documentation will be required.

At 30 June 2019, €89 million of the RCF remained available, representing a utilisation rate of 29%. The RCF is drawn in the amount of €36 million. This draw-down replaced the US$45 million draw-down initially used to finance the acquisition of Syncplicity in 2017.

Three financial ratios, calculated based on the published consolidated financial statements, on a 12-month sliding basis, must be met under the covenants:

- "Net debt/EBITDA" ratio;
- ratio of "EBITDA to financial expenses";
- "Net debt/Shareholders' equity" ratio.

Note that net debt does not include employee profit-sharing liabilities or IFRS 16 lease liabilities, to maintain a constant calculation method.

At 30 June 2019, these financial covenant are all met.

The Group also secured loans in 2015 and 2016 from Banque Populaire and BPI France totalling €18 million. Outstanding capital on these borrowings at 30 June 2019 is €8.4 million.

The acquisition of Streamdata.io impacted net debt in the amount of -€1.1 million, as follows:

(in thousands of euros)	30/06/2019
Acquisition cost	-1,538
Net debt/Net cash and cash equivalents of the company acquired	415
Earn-out	-
Impact of changes in the scope of consolidation	**-1,123**

Note 17 Current deferred income

(in thousands of euros)	30/06/2019	31/12/2018
Deferred income	85,631	75,232
Total	**85,631**	**75,232**

Current deferred income, representing customer contract liabilities, is presented in Chapter 4, "Consolidated financial statements", Note 4.1. of the 2018 Registration Document. Movements reflect:

- the recognition of prior-period deferred income in revenue;
- the transfer of prior-period non-current deferred income to current deferred income;
- the emergence of new liabilities as a result of services invoiced but not yet fulfilled.

The majority of current customer contract liabilities at 31 December 2018 were recognised in revenue in the first half of 2019.

To avoid the overstatement of asset and liability accounts, deferred income with a recognition trigger after 1 January 2019 and the corresponding trade receivables not settled at 31 December 2018 were offset in the balance sheet at 31 December 2018. This is performed due to the high level of maintenance invoicing at the end of the calendar year. There is no offset at 30 June.

The increase in current deferred income on 31 December 2018 is attributable to the Maintenance business line in the amount of €15 million and the Subscription business line in the amount of €5 million.

Note 18 Other current liabilities

(in thousands of euros)	30/06/2019	31/12/2018
Amounts payable on non-current assets	927	2,044
Advances and payments on account received for orders	89	116
Employee-related liabilities	19,679	27,604
Tax payables	8,539	6,262
Income tax	1,605	3,022
Other liabilities	1,434	3,830
Restructuring provisions	43	85
Total	**32,316**	**42,963**

The significant decrease in employee-related liabilities is due to the impact of revenue seasonality on variable compensation provided at 30 June 2019 compared to 31 December 2018.

The increase in tax payables is due to the offset of trade receivables and deferred income, and therefore VAT, at 31 December 2018 (this offset is described in Note 17, Deferred income).

Other information

Note 19 Related-party transactions

Agreements entered into with parties related to the Axway Group were identified in Note 3.2 "Related-party transactions" in Axway's 2018 Registration Document, filed with the French Financial Markets Authority (AMF) on 26 April 2019, under no. D. 18-0393 and available on the Company's website at http://www.investors.axway.com. In addition, the 2018 Registration Document includes the report on regulated agreements.

No additional agreements were entered into with parties related to the Axway Group during the first half of 2019, other than those described in the 2018 Registration Document.

Note 20 Off-balance-sheet commitments and contingent liabilities

The Group's off-balance sheet commitments are granted or received by Axway and its subsidiaries. These commitments have not significantly changed since 31 December 2018.

At 30 June 2019, the Group complied with all covenants and commitments under the syndicated credit facility.

Note that net debt used in the calculations does not include the impacts of application of IFRS 16, *Leases*, or employee profit-sharing liabilities.

The syndicated credit facility totals €125 million and has been extended and will mature in January 2024.

The following three financial ratios must be met under the covenants:

- "Net debt/EBITDA" ratio below 3.0 throughout the term of the loan. This ratio was 0.47 at 30 June 2019;
- the ratio of "EBITDA to financial expenses" above 5.0 throughout the loan term. This ratio was 45.19 at 30 June 2019;
- "Net debt/shareholders' equity" ratio below 1.0 throughout the term of the loan. This ratio was 0.03 at 30 June 2019.

The €36 million credit line on the RCF (Revolving Credit Facility) present at 31 December 2018 is still present at 30 June 2019, bringing the available amount of the syndicated facility to €89 million.

Note 21 Exceptional events and legal disputes

To the best of the Group's knowledge, and notwithstanding the information provided herein, at the date of this report, no disputes or litigation known or ongoing could have a significant negative impact on the Group's financial position.

Note 22 Events after the reporting period

Between 1 July 2019 and the date of the Board of Director's meeting, there were no significant events likely to impact the financial statements.

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Statutory Auditors report on the interim financial statements

This is a translation into English of the Statutory Auditors' report on the interim financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting and pursuant to Article L. 451-1-2 III of the French Monetary and Financial Code (*Code monétaire et financier*), we have:

- conducted a limited review of the accompanying condensed interim consolidated financial statements of Axway Software for the period from 1 January to 30 June 2019;
- verified the information provided in the half-year management report.

These condensed interim consolidated financial statements were prepared under the responsibility of the Board of Directors. Our responsibility is to express our conclusion on these financial statements, based on our limited review.

I Conclusion on the financial statements

We conducted our limited review in accordance with the professional standards applicable in France.

A limited review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Based on our limited review, nothing has come to our attention that causes us to believe that these condensed IFRS financial statements are not prepared in all material respects in accordance with IAS 34, as adopted by the European Union applicable to interim financial information.

Without qualifying the above conclusion, we draw your attention to Note 1 “Accounting principles” to the condensed interim consolidated financial statements regarding the first-time adoption of IFRS 16 *Leases* as from 1 January 2019.

II Specific verification

We have also verified the information presented in the half-year management report commenting on the condensed interim consolidated financial statements that were the subject of our limited review.

We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Paris-La Défense and Paris, 26 July 2019

The Statutory Auditors

Auditeurs & conseils associés – ACA NEXIA

Sandrine Gimat

Mazars

Bruno Pouget

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Declaration by the person responsible for the interim financial report

“I declare that, to the best of my knowledge, the condensed consolidated financial statements for the six months ended have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Axway Group and of all the entities included in the scope of consolidation, and that this Half-Year management report provides a fair review of the significant events that occurred in the first six months of the fiscal year and their impact on the financial statements, and of the main transactions between related parties, as well as a description of the main risks and uncertainties for the remaining six months of the fiscal year.”

Paris-La Défense, 26 July 2019

Patrick Donovan

Chief Executive Officer

imagination takes shape

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