Interim financial report at 30 June 2018

2018

axway
imagination takes shape

Contents

Half-year management report

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Key events in the first half of 2018

The key events in the first half were as follows:

- change in governance, Patrick Donovan appointed Chief Executive Officer of Axway Software, succeeding Jean-Marc Lazzari;
- Group revenue of €134.9 million stable at constant exchange rates, down 2.0% organically;
- profit on operating activities of €12.3 million, or 9.1% of revenue;
- stable licenses and maintenance activities, growth in subscription (1) activity;
- organization aligned to support acceleration of strategy execution.

Accelerating execution of the transformation strategy

In the first half of 2018, Axway reaffirmed its strategy to become a market leader in Hybrid Integration by the end of 2020 and its aim to transform its offering and business model to continue adapting to new customer demands.

On 6 April 2018, Axway's Board of Directors appointed Patrick Donovan Group CEO, with the priority mission of accelerating execution of this strategy.

Since then, several important initiatives have been implemented, including:

- creation of a Customer Success Organization (CSO) encompassing Sales and Customer Satisfaction;
- adjustment of commercial models and commission plans to better support the subscription offering;
- review of the marketing strategy, now focused on digital levers;
- appointment of new leaders (Finance, CSO, Marketing).

These changes should enable Axway to better respond to the new economic environment in its markets.

(1) The cloud activity has been renamed to take into account, in the future, sales of subscriptions delivered in a hybrid mode (either in the cloud, on-premise or both).

Business performance in the first half of 2018

In the first half of 2018, Axway successfully stabilized its licenses and maintenance sales while growing its subscription business. While growth in subscription was not sufficient to offset the decline in services activities over the first half of the year, the Group, under the leadership of its new Chief Executive Officer, is making the necessary adjustments to accelerate strategy execution and has launched several initiatives, as mentioned above, that should bear fruit in the medium term.

Thus, between January and June 2018, Axway generated revenue of €134.9 million, down 2.0% organically and 5.5% in total. While the scope effect was limited to the consolidation of Syncplicity's activities for the first two months of 2018 (+€2.8 million), exchange rate fluctuations had a negative impact on Group revenue of -€7.9 million. Revenue would have been stable over the period (0.0%) at constant exchange rates. Profit on operating activities increased significantly in the first half of 2018, reaching €12.3 million, or 9.1% of revenue, compared with 4.2% in the first half of 2017. This outperformance is mainly due to the positive effect of exchange rate fluctuations on the cost base and the late launch of additional investments planned for the year.

(in millions of euros)	1st half 2018	1st half 2017	2017 Restated (1)	Total Growth	Organic Growth
Licenses	23.8	25.0	23.8	-4.8%	0.0%
Subscription	18.8	17.2	18.2	9.3%	3.3%
Maintenance	69.9	73.5	69.7	-4.9%	0.3%
Services	22.5	27.1	26.0	-17.0%	-13.5%
Axway	**134.9**	**142.8**	**137.7**	**-5.5%**	**-2.0%**

(1) At comparable perimeter and exchange rate.

Licenses revenue was €23.8 million in the first half of 2018, stable organically (0.0%) and down 4.8% in total. Despite a difficult first quarter, marked by a further lengthening of customer decision cycles, several important signatures punctuated the second quarter (organic growth of 4.7%) stabilizing activity over the half-year. The MFT (Managed File Transfer) offering, dedicated to secure file transfer management, as well as the API Management offering, an essential distribution channel for data governance, were the most robust. By vertical market, Financial Services and Healthcare grew strongly. Factoring in an exceptionally high comparison basis with the fourth quarter of 2017, the Group forecasts an organic decline of 3.0 to 5.0% for this activity over the full-year.

Subscription revenue increased by 9.3% in total and by 3.3% organically to €18.8 million in the first half of 2018. Subscription contracts signed during the period had an annual contract value (ACV) of €4.7 million up nearly 15% compared to the first half of 2017. This good commercial performance, which enables the Group to gradually increase the recurring portion of its revenue, was nevertheless slowed by several temporary adverse effects on recently acquired products. It was notably decided to change the strategy on a specific component of the Appcelerator offering now available in Open Source [2]. Axway emphasizes the major technological interest of its last acquisitions for the construction of its AMPLIFY™ Hybrid Integration Platform offering. The Group has made several key strategic adjustments which should accelerate the adaptation of its business model, and in particular the commercial processes, to the subscription offering.

Maintenance activities generated revenue of €69.9 million in the first half, with organic growth of 0.3%. This revenue stability in the first half of the year demonstrates the resilience of the activity's business model which only partially depends on new licenses signatures.

Consequently, in the first half of 2018, Axway's recurring revenue (maintenance + subscription) increased to 66% of revenue compared to 64% in the first half of 2017.

Services revenue amounted to €22.5 million, down 13.5% organically over the period. The move to outsource non-strategic services and the lack of growth in licenses activity directly weighed on demand. Although the Group anticipates more stable revenue in the second half for this activity, the priority objective remains to improve profitability.

(2) The source codes of several software modules and components are now distributed under a license allowing anyone to read, modify or redistribute them.

(in millions of euros)	1st half 2018	1st half 2017	2017 Restated (1)	Total Growth	Organic Growth
France	37.3	38.7	38.7	-3.6%	-3.6%
Rest of Europe	32.4	33.7	33.4	-3.9%	-3.0%
Americas	58.4	62.7	58.4	-6.9%	0.0%
Asia-Pacific	6.8	7.8	7.2	-12.8%	-5.6%
Axway	**134.9**	**142.8**	**137.7**	**-5.5%**	**-2.0%**

(1) At comparable perimeter and exchange rate.

France generated revenue of €37.3 million in the first half of 2018 (28% of Group revenue), down 3.6% organically. Licenses, maintenance and subscription activities grew sharply in the second quarter after a mixed first quarter. The decrease in France over the half-year is mainly attributable to services, which reported a 19% drop in revenue organically.

The **Rest of Europe** fell 3.0% organically over the first six months of 2018, reporting revenue of €32.4 million. In Germany and the United Kingdom, licenses and subscription activities posted very strong organic growth, while the performance of the other European countries was affected by a particularly high comparison basis in Benelux for the first half of 2017.

The **Americas** (USA & Latin America) accounted for 43% of Group revenue in the first half of 2018. At €58.4 million for the period, revenue was stable compared to the first half of 2017. While licenses and maintenance operations grew similarly, subscription operations were only slightly up compared to the previous year.

Finally, in **Asia-Pacific**, revenue fell 5.6% organically to €6.8 million for the half-year. While the subscription activity grew strongly despite the postponement of several projects to the second half of the year, the maturity of the Australian market weighed on the licenses activity.

Results for the first half of 2018

Profit on operating activities for the first half of 2018 was 9.1% of revenue, compared to 4.2% in the first half of 2017. The increase is attributable to several elements. First, excluding the impact of the changes in exchange rates, revenue is consistent with that of the first half of 2017. However, with the same revenue level, we have a €14 million decline in expenses, arising from €8 million in cost savings, the late first half 2018 launch of the additional investments planned for the year and the positive effect of exchange rate fluctuations on the cost base for €6 million.

Profit from recurring operations amounted to €7.8 million in the first half of 2018, representing 5.7% of Group revenue compared with 0.7% for the prior-year period, after amortization of purchased intangible assets of €4.1 million.

Operating profit, including €2.8 million of other operating income and expenses, was 3.7% of first-half revenue, or €5.0 million.

Net profit was €3.9 million, or 2.9% of revenue for the first half of 2018.

Basic earnings per share reached €0.18 at 30 June 2018, compared with €0.12 in the first half of 2017, an increase of 50%.

	1st half 2018		1st half 2017	
	(in millions of euros)	*(% Rev)*	*(in millions of euros)*	*(% Rev)*
Total Revenue	**134.9**	**100.0%**	**142.8**	**100.0%**
Costs of sales				
Product Revenue	-11.7	8.7%	-13.2	9.3%
Cloud	-11.2	8.3%	-10.6	7.4%
Services	-19.9	14.8%	-23.5	16.5%
Total Costs of sales	**-42.8**	**31.7%**	**-47.3**	**33.1%**
Gross profit	**92.1**	**68.3%**	**95.5**	**66.9%**
Operating expenses				
Sales and marketing	-39.0	28.9%	-42.7	29.9%
Research and development	-26.8	19.9%	-31.5	22.1%
General and administrative	-14.0	10.4%	-15.2	10.7%
Total operating expenses	**-79.8**	**59.1%**	**-89.5**	**62.7%**
Profit on operating activities	**12.3**	**9.1%**	**6.0**	**4.2%**
Stock option expense	-0.4		-0.5	
Amortization of intangible assets	-4.1		-4.5	
Profit from recurring operations	**7.8**	**5.7%**	**1.0**	**0.7%**
Other income and expenses	-2.8		-1.3	
Operating profit	**5.0**	**3.7%**	**-0.4**	**-0.3%**
Cost of net financial debt	-0.5		-0.0	
Other financial revenues and expenses	-0.4		0.5	
Income taxes	-0.2		2.5	
Net profit	**3.9**	**2.9%**	**2.6**	**1.8%**
Basic earnings per share *(in euros)*	**0.18**		**0.12**	

Financial position of the Group

At 30 June 2018, Axway's financial position remained solid with cash of €47.6 million and bank debt of an equivalent amount.

Free cash flow for the first half was €21.8 million, compared to €19.0 million for the first half of 2017.

Shareholders' equity at 30 June 2018, amounted to €353.9 million.

Main risks and uncertainties for the second half of 2018

The level and nature of risks to which the Group is subject have not changed compared to the risk factors set out on pages 42 to 50 of the 2017 Registration Document.

However, the evolution of the economy is one of the main factors influencing the course of business during the second half.

2018 Targets and 2020 Outlook

Noting the moderate growth of its subscription activity in the first half of 2018 and a high basis of comparison for the licenses activity in the second half of the year, the Group anticipates organic revenue growth of between -3% and 0% over the full year.

In addition, during its transformation period, Axway confirms an additional investment of approximately €15 million per year dedicated to the construction and sale of the AMPLIFY™ platform. These investments were launched late in the first half and will be mainly concentrated in the second half in 2018 for an estimated cost of 3 to €5 million over the year.

These two factors suggest an operating margin rate between 8.0% and 11.0% for the fiscal year.

Finally, Axway also reaffirms its ambitions for the end of 2020:

- become a market leader in Hybrid Integration Platforms (HIP);
- maintain revenue at approximately €300 million ("organically stable compared to 2017") while transforming the revenue mix from licenses to subscription;
- seize acquisition opportunities to support this strategy.

Events after the reporting period

Between 1 July 2018 and the date of the Board of Director's meeting, there were no significant events likely to impact the financial statements presented.

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 contract value of the subscription agreement.

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

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

Condensed consolidated financial statements for the six months ended 30 June 2018

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Income statement

		1st half 2018	1st half 2017
(in thousands of euros)	**Notes**	**Amount**	**Amount**
Revenue	**3.4**	**134,938**	**142,786**
Staff costs	5	-87,769	-97,944
External expenses		-38,144	-40,232
Taxes and duties		-1,236	-1,145
Depreciation and amortisation, provisions and impairment		-2,949	-3,546
Other operating expenses and income from recurring operations		7,459	6,064
Operating profit on business activity		**12,298**	**5,983**
as % of revenue excl. VAT		***9.1%***	***4.2%***
Share-based payment expense		-439	-542
Amortisation of allocated intangible assets		-4,109	-4,459
Profit from recurring operations		**7,750**	**982**
as % of revenue excl. VAT		***5.7%***	***0.7%***
Other operating income and expenses		-2,796	-1,340
Operating profit		**4,954**	**-358**
as % of revenue excl. VAT		3.7%	-0.3%
Cost of net financial debt	7	-475	-21
Other financial income and expense	7	-402	485
Tax charge	8	-218	2,529
Net income from associates		-	-
Net profit for the period from continuing operations		**3,859**	**2,635**
Profit after tax from discontinued operations		-	-
Attributable to Group		**3,859**	**2,635**
as % of revenue excl. VAT		***2.9%***	***1.8%***
Minority interests		-0	-1
Net profit		**3,859**	**2,634**

Earnings per share

(in euros)	**Notes**	**1st half 2018**	**1st half 2017**
Basic earnings per share	**9**	**0.18**	**0.12**
Fully diluted earnings per share	**9**	**0.18**	**0.12**

Other comprehensive income statement

(in thousands of euros)	1st half 2018	1st half 2017
Net profit	**3,859**	**2,635**
Other comprehensive income statement:		
Actuarial gains and losses on pension plans	157	150
Tax impact	-54	-52
Subtotal of items not reclassifiable to profit or loss	**103**	**98**
Minority interests	-0	-1
Translation differential	5,322	-23,299
Change in the value of derivatives	-	-
Tax impact	-	-
Subtotal of items reclassifiable to profit or loss	**5,322**	**-23,300**
Total other comprehensive income statement	**5,425**	**-23,202**
Total comprehensive profit	**9,284**	**-20,567**
Minority interests	-0	-1
Attributable to Group	**9,284**	**-20,568**

Balance sheet

Assets

(in thousands of euros)	Notes	30/06/2018	31/12/2017
Goodwill	10	339,496	333,617
Intangible assets		45,098	48,917
Property and equipment		13,921	14,390
Financial assets		3,035	3,288
Deferred tax assets		22,488	20,459
Other non-current assets		**424,037**	**420,670**
Inventories		118	178
Trade accounts receivable	11	55,586	71,090
Other current receivables		30,197	31,016
Cash and cash equivalents		47,559	28,146
Current assets		**133,459**	**130,430**
Total assets		**557,496**	**551,100**

Liabilities and equity

(in thousands of euros)	Notes	30/06/2018	31/12/2017
Share capital		42,448	42,420
Capital reserves		121,688	121,044
Consolidated reserves		185,912	176,256
Profit for the period		3,859	4,404
Equity – Group share		**353,906**	**344,126**
Minority interests		**2**	**2**
Total equity	**12**	**353,908**	**344,127**
Financial debt – long-term portion	13	45,362	47,759
Deferred tax liabilities		33	420
Other non-current liabilities		8,852	22,090
Non-current liabilities		**54,247**	**70,269**
Financial debt – short-term portion	13	5,585	4,481
Trade accounts payables		18,289	16,172
Deferred revenue	14	94,374	67,313
Other current liabilities	15	31,094	48,738
Current liabilities		**149,341**	**136,704**
Total liabilities		**203,588**	**206,973**
Total liabilities and equity		**557,496**	**551,100**

Statement of changes in equity

(in thousands of euros)	Share capital	Capital reserves	Treasury shares	Reserves and consolidated profit	Other comprehensive income statement items	Total attribuable to Group	Minority interests	Total
Equity at 30/06/2017	**42,375**	**120,045**	**-460**	**170,141**	**20,403**	**352,504**	**3**	**352,506**
Capital transactions	45	291	-	-	-	336	-	336
Share-based payments	-	709	-	-	-	709	-	709
Transactions in treasury shares	-	-	-161	-	-	-161	-	-161
Earnings appropriation	-	-	-	-6	-	-6	-	-6
Changes in scope of consolidation	-	-	-	-	-	-	-	-
Others movements	-	-	-	-3,654	-81	-3,736	-	-3,736
Transactions with shareholers	**45**	**1,000**	**-161**	**-3,661**	**-81**	**-2,858**	**-**	**-2,858**
Profit for the year	-	-	-	1,770	-	1,770	0	1,770
Other comprehensive income statement	-	-	-	-	-7,291	-7,291	-2	-7,292
Total comprehensive profit for the year	**-**	**-**	**-**	**1,770**	**-7,291**	**-5,521**	**-1**	**-5,522**
Equity at 31/12/2017	**42,420**	**121,044**	**-621**	**168,250**	**13,031**	**344,126**	**2**	**344,127**
Capital transactions	27	181	-	-	-	208	-	208
Share-based payments	-	462	-	-	-	462	-	462
Transactions in treasury shares	-	-	-174	-	-	-174	-	-174
Earnings appropriation	-	-	-	-	-	-	-	-
Changes in scope of consolidation	-	-	-	-	-	-	-	-
Others movements	-	-	47	-45	-1	-	-	-
Transactions with shareholers	**27**	**644**	**-127**	**-45**	**-1**	**497**	**-**	**497**
Profit for the year	-	-	-	3,859	-	3,859	0	3,859
Other comprehensive income statement	-	-	-	-	5,425	5,425	-0	5,425
Total comprehensive profit for the year	**-**	**-**	**-**	**3,859**	**5,425**	**9,284**	**1**	**9,285**
Equity at 30/06/2018	**42,448**	**121,688**	**-748**	**172,064**	**18,455**	**353,906**	**2**	**353,908**

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Statement of cash flows

The closing cash position is *cash and cash equivalents* less bank overdrafts.

(in thousands of euros)	1st half 2018	1st half 2017
Consolidated net profit (including minority interests)	**3,859**	**2,635**
Net increase in depreciation, amortisation and provisions	6,432	6,290
Unrealised gains and losses relating to changes in fair value	-	22
Share-based payment expense	439	542
Other calculated income and expense	-	-
Gains and losses on disposal	555	61
Cash from operations after cost of net debt and tax	**11,284**	**9,551**
Net cost of financial debt	475	21
Income taxes (including deferred tax)	218	-2,529
Cash from operations before cost of net debt and tax (A)	**11,978**	**7,043**
Tax paid (B)	-2,509	-1,529
Changes in operating working capital requirements (including liabilities related to employee benefits) (C)	16,016	16,509
Net cash from operating activities (D) = (A+B+C)	**25,485**	**22,023**
Purchase of tangible and intangible fixed assets	-3,255	-3,035
Proceeds from sale of tangible and intangible fixed assets	-	192
Purchase of financial assets	-	-
Proceeds from sale of financial assets	-	-
Impact of changes in the scope of consolidation	-	-56,816
Variations of lending	86	-775
Net cash from (used in) investing activities (E)	**-3,168**	**-60,435**
Proceeds on the exercise of stock options	208	2,814
Purchase and proceeds from disposal of treasury shares	-	-203
Dividends paid during the period	-	-8,462
Borrowings	81	40,615
Repayment of borrowings	-2,290	-21,611
Net interest paid (including finance leases)	-475	-21
Other cash flow relating to financing activities	-	-31
Net cash from (used in) financing activities (F)	**-2,476**	**13,100**
Effect of foreign exchange rate changes (G)	-440	-1,055
Net change in cash and cash equivalents (D+E+F+G)	**19,400**	**-26,366**
Opening cash position	28,137	51,707
Closing cash position	47,537	25,341

Notes to the condensed interim consolidated financial statements

Contents for the notes to the consolidated financial statements

Note 1 Accounting principles

These condensed interim consolidated financial statements for the six months ended 30 June 2018, together with the accompanying notes, were prepared under the responsibility of the Board of Directors and approved at its meeting of 25 July 2018.

1.1 Basis of preparation of the condensed interim consolidated financial statements

The consolidated financial statements at 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 principles of the condensed consolidated financial statements for the six months ended 30 June 2018 are identical to those adopted in the consolidated financial statements at 31 December 2017 and set out in the 2017 Registration Document filed on 26 April 2018 with the AMF (*Autorité des marchés financiers*) as number D.18-0393, available on line at http://www.investors.axway.com, in Chapter 4, Note 1.

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 the same as those used to prepare the financial statements for the year ended 31 December 2017, with the exception of provisions specific to the preparation of interim financial statements:

- tax expense is calculated by applying the applicable tax rate based on the tax result determined to date to the end of 2018 to profit before tax for the period;
- retirement commitments for the period were estimated using actuarial studies carried out for the 2017 financial year, updated for the first half of 2018.

The following are new standards, amendments to existing standards, and interpretations which must be applied for accounting periods beginning on or after 1 January 2018:

- IFRS 15 *Revenue from Contracts with Customers* (including amendments and clarifications);
- IFRS 9 *Financial Instruments*;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*;
- Amendments to IFRS 2 *Share-based Payment*.

Application of IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments*, and IFRS 16 *Leases* are detailed in paragraphs 1.2.1, 1.2.2, and 1.2.3, respectively.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, and amendments to IFRS 2 *Share-based Payment*, have no impact on the financial statements.

The Group chose not to early apply the standards published by the IASB, adopted by the European Union but for which the application date is after 1 January 2018. These primarily relate to: IFRS 16 *Leases*, mandatory as of 1 January 2019. Its implementation in the Group is described in paragraph 1.2.3.

1.2.1 Application of IFRS 15 *Revenue from Contracts with Customers*.

IFRS 15 *Revenue from Contracts with Customers* sets out a five-step framework for analyzing customer contracts, as follows:

1. identify the contract with the customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. apportion the transaction price to the performance obligations in the contract;
5. recognize revenue.

During the analysis required by each of these stages, divergences from the application of the current standards were identified in individual cases involving a limited number of contracts. Thus, as described in the 2017 Registration Document in paragraph 1.2.b on pages 122 and 123, the divergences identified affected a very marginal number of contracts and focused on:

- distinguishing service obligations within a contract, specifically the treatment of set-up phases for delivery of services in SaaS mode. These services could either be non-distinct, in which case a corresponding asset will be amortized over the duration of the performance obligations to which they refer, or they could be distinct, and recognized when control is transferred to the customer.

  The analysis carried out by the Group led to the conclusion that no change should be made to the method currently applied for recognizing revenue.

  In the Group's view, therefore, the application of this new rule will have no impact on its financial statements;
- the procedures for determining the transaction price of a contract and its apportionment to the different service obligations resulting in the identification of variable facilities granted to the customer such as discounts, predefined financial penalties in the case of the Group's failure to deliver the services to the customer in SaaS mode, or bonuses, in accordance with their probability of occurrence.

The internal procedure for recognizing revenue takes variable considerations into account. These are systematically analyzed for each customer contract, but given their low impact, revenues are not adjusted.

In 2017, the Group noted an impact related to variable considerations of €35 thousand, and during the first half of 2018, an impact of less than €20 thousand.

In the Group's view, the application of this new rule will have no material impact on its financial statements. The financial statements are not restated for the 2017 fiscal year;

- the procedures for determining the transaction price of a contract and its apportionment to the different service obligations resulting in the identification of financial components related to the service payment procedures. The procedure for recognizing the Group's revenue takes this new rule into account. As such, every customer contract signed is analyzed.

  The Group has found that financing components are infrequent, due to the commercial procedures which limit their appearance, and that the amounts of these components are small. Therefore, revenues are not adjusted when they are recognized. However, the Group did prepare an update at the end of each half-year to verify that the impact of financing components and they remain minor. If such financing components were to have a material impact, revenues would be adjusted accordingly.

  In 2017, the Group noted an impact related to financing components of less than €50 thousand, and during the first half 2018, an impact of less than €25 thousand.

  In the Group's view, the application of this new rule will have no material impact on its financial statements. The financial statements are not restated for the 2017 fiscal year;
- the consideration payable to the customer which cannot be identified as separate services performed by the customer under the contract. The Group did not identify this type of contract in 2017 or 2018;
- non-cash consideration. The Group did not identify this type of contract in 2017 or 2018.

Implementation costs related to SaaS contracts, such as commissions, are capitalized and amortized over the duration of the contract beginning on 1 January 2017. In anticipation of the adoption of the new IFRS 15, the Group had adapted its internal revenue recognition procedure and its implementation cost accounting procedure prior to 2018.

At the end of this diagnostic phase, it is the Group's view that the combined adjustments identified for the application of IFRS 15 have no material impact on Revenue, Profit from consolidated operations, or the Statement of consolidated financial position. Comparative information has not been restated.

1.2.2 Description of the application of IFRS 9 *Financial Instruments*

Application of IFRS 9 *Financial Instruments* is compulsory as of 1 January 2018. The Group has analyzed the new rules and diagnosed their impact. The Group has identified and reviewed the following points.

A new model for impairment of trade receivables requires statistical provisioning of credit risk at the issuance of the receivables. Given both the nature of the Group's customers, who exhibit a low credit risk, and the policy of systematically provisioning receivables beyond a certain maturity, in the Group's view the application of this new rule has no material impact on its financial statements.

The new standard changes the accounting treatment of refinancing transactions to the extent that they are not considered as a repayment, but as an amendment of the previous terms. In the Group's view, the changes to its borrowings prior to the application of the new standard have no material impact on its financial statements.

IFRS 9 changes the method for measuring the value of exchange-risk and interest-rate risk hedges carried out using option-based derivative instruments. Thus, changes in their time values are recognized in other comprehensive income, and the time value at the date when the hedging relationship is designated is amortized over the period during which the derivative instrument may impact profit. During the transition, the Group has no hedging instruments; this change has no impact on its financial statements.

The Group has not found any adjustment further to the application of IFRS 9; comparative information has not been restated.

1.2.3 Description of the application of IFRS 16 *Leases*

IFRS 16 *Leases* will require the lessee to recognize a right of use under assets and a rental liability.

The Group has implemented a plan including an initial phase of collecting all information that may be required by the new standard and simulating the impacts of the different options it offers. This is followed by a second roll-out phase in preparation for its implementation at 1 January 2019.

At 30 June 2018, the Group has not yet determined all of the options that it will apply as from 1 January 2019. These may have a material impact on the right of use, rental liability, or future profits. Therefore, the Group is not able to report the impacts of application of the new rules or the choice of transition method.

The main accounting methods used by the Group are described in the notes to the annual financial statements.

Note 2 Key events and scope of consolidation

Change in the scope of consolidation

a. Deconsolidated entities

The Group liquidated the following companies: Systar Ltd. in England, Appcelerator Inc in the United States, Appcelerator Singapore in Singapore, and Axway Software Sdn Bhd in Malaysia. These companies were deconsolidated at the beginning of the 2018 fiscal year.

The intangible assets (technology and client database) of Syncplicity LLC in the United States were transferred to Axway Inc. in the United States as of 31 March 2018. This transfer also includes all assets and liabilities of Syncplicity LLC, except for remaining balances from operations subsequent to 31 March 2018, such as bank balances, trade receivables, trade payables, and inter-company balances.

b. Newly-consolidated entities

There are no newly-consolidated entities in the first half of 2018.

Notes to the consolidated income statement

Note 3 Revenue

3.1 Revenue by activity

(in millions of euros)	1st half 2018		1st half 2017	
Licenses	23.8	17.6%	25.0	17.5%
Subscription	18.8	13.9%	17.2	12.0%
Maintenance	69.9	51.8%	73.5	51.4%
Services	22.5	16.7%	27.1	19.0%
Total revenue	**134.9**	**100.0%**	**142.8**	**100.0%**

3.2 International revenue

(in millions of euros)	1st half 2018		1st half 2017	
France	37.3	27.7%	38.7	27.1%
International	97.6	72.3%	104.1	72.9%
Total revenue	**134.9**	**100.0%**	**142.8**	**100.0%**

Note 4 Segment information

Geographical breakdown of revenue

(in millions of euros)	1st half 2018		1st half 2017	
France	37.3	27.7%	38.7	27.1%
Rest of Europe	32.4	24.0%	33.7	23.5%
Americas	58.4	43.3%	62.7	43.9%
Asia Pacific	6.8	5.0%	7.8	5.5%
Total revenue	**134.9**	**100.0%**	**142.8**	**100.0%**

Note 5 Employee costs

5.1 Breakdown of employee costs

(in thousands of euros)	1st half 2018	1st half 2017
Salaries	70,753	77,912
Social charges	16,727	19,934
Employee profit sharing	117	98
Employee incentives	172	-
Total	**87,769**	**97,944**

5.2 Workforce

No. of employees at 30 June	1st half 2018	1st half 2017
France	467	576
International	1,313	1,365
Total	**1,780**	**1,941**

At 30 June 2018, Axway had 1,780 employees (26% in France and 74% internationally), compared to 1,839 at 31 December 2017 and 1,941 at 30 June 2017.

Average no. of employees	1st half 2018	1st half 2017
France	489	584
International	1,299	1,360
Total	**1,787**	**1,945**

Note 6 Other operating income and expenses

In the first half of 2018, the non-recurring expenses recognized under this item are mainly related to restructuring plans (€2.7 million) and expenses in respect of the acquisition of Syncplicity (€0.1 million).

Note 7 Financial income and expenses

7.1 Net cost of financial debt

(in thousands of euros)	1st half 2018	1st half 2017
Income from cash management	48	95
Interest expense	-523	-116
Total	**-475**	**-21**

7.2 Other financial income and expenses

(in thousands of euros)	1st half 2018	1st half 2017
Foreign exchange gains and losses	**-768**	**1,089**
Reversal of provisions	-	-
Other financial income	-	-
Total other financial income	**-768**	**1,089**
Charges to provisions	211	-3
Discounting of retirement commitments	-48	-55
Discounting of employee profit sharing	-	-
Discounting of earnouts in respect of companies acquired	-	-
Change in the value of derivatives	205	158
Net carrying amount of financial assets sold	-	-28
Other financial expenses	-2	-676
Total other financial expense	**366**	**-604**
Total other financial income & expense	**-402**	**485**

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Note 8 Tax expense

(in thousands of euros)	1st half 2018	1st half 2017
Current tax	-2,260	-2,772
Deferred tax	2,042	5,301
Total	**-218**	**2,529**

For the first half of 2018, the tax expense is €0.2 million, representing an effective tax rate of 5.35% for the Group.

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

The outlook for profitability and growth of the parent company Axway Software SA have resulted in the recognition of €0.9 million in deferred tax assets over the first half of 2018, in consideration of the impact of the reduction in the corporate income tax rate.

The prior earnings and future growth prospects of the US subsidiary Axway Inc. resulted in the degree to which deferred tax assets are activated being based on the profits for five years, from the half-yearly closing for 2013, rather than two years as was previously the case. For the first half of 2018, the amount of deferred tax assets increased by €0.4 million in light of the exchange rate effect. The deferred tax assets of Axway Inc., excluding the exchange rate effect, were stable over the half year.

The deferred tax liabilities of Syncplicity LLC in the United States were reduced by €0.4 million over the first half of 2018 in view of a new American tax law.

Axway Software's position:

As of 30 June 2018, capitalized tax losses stood at €4.7 million (in deferred tax assets); they stood at €4.4 million as of 31 December 2017.

Axway Inc's position:

As of 30 June 2018, capitalized tax losses stood at $18.1 million (in deferred tax assets); they stood at $18.1 million as of 31 December 2017.

As of 30 June 2018, deferred tax assets not capitalized on tax losses carried forward stood at €20.8 million and mainly involved the following subsidiaries: Axway Inc. (€12.1 million), Axway Software SA (€2.2 million), Axway Pte Ltd. in Singapore (€0.8 million), Axway Software Do Brazil Ltda (€1.1 million), and others (€4.6 million).

Note 9 Earnings per share

(in euros)	1st half 2018	1st half 2017
Net profit – Group share	3,858,793	2,634,101
Weighted average no. ordinary shares in issue	21,218,257	21,124,046
Basic earnings per share	**0.18**	**0.12**

(in euros)	1st half 2018	1st half 2017
Net profit – Group share	3,858,793	2,634,101
Weighted average number of ordinary shares in issue	21,218,257	21,124,046
Weighted average number of securities retained in respect of dilutive items	625,408	168,417
Weighted average number of shares retained for the calculation of diluted net earnings per share	21,843,665	21,292,463
Fully diluted earnings per share	**0.18**	**0.12**

Notes to the consolidated balance sheet

Note 10 Goodwill

The movements in the first half were as follows:

(in thousands of euros)	Gross value	Impairment	Net
31 December 2017	**342,304**	**8,687**	**333,617**
Acquisition of Syncplicity	545	-	545
Translation differential	5,225	-108	5,334
30 June 2018	**348,075**	**8,579**	**339,496**

The assets acquired and liabilities assumed of Syncplicity LLC acquired in February 2017 were adjusted by €0.5 million in 2018 including an earn-out of €0.9 million ($1.056 thousand). Pursuant to IFRS 3 as amended, this assessment was finalized in the 12 months following the acquisition date.

Note 11 Trade receivables

(in thousands of euros)	30/06/2018	31/12/2017
Trade accounts receivable	50,870	66,287
Accrued income	6,214	5,938
Accrued credit notes	-	-
Provision for doubtful debtors	-1,499	-1,135
Total	**55,586**	**71,090**

Note 12 Shareholders' equity

12.1 Changes in the share capital

At 31 December 2017, the share capital stood at €42,420,462, and comprised 21,210,231 fully paid-up shares with a nominal value of €2.00 each.

In the first half of 2018, 13,650 share subscription options were exercised, leading to the creation of 13,650 fully paid-up new shares at the price of €2.00 with issue premiums of €14.90 (8,650 options), and €15.90 (5,000 options), respectively.

At 30 June 2018, the share capital stood at €42,447,762, comprising 21,223,881 fully paid-up shares with a nominal value of €2.00 each.

12.2 Dividends

The General Meeting of Axway Software held on 6 June 2018 to approve the 2017 financial statements approved a dividend of €0.20 per share, representing a total of €4,237 thousand.

This dividend was paid on 4 July 2018.

Note 13 Financial liabilities – Net debt

(in thousands of euros)	Current	Non-current	30/06/2018	31/12/2017
Bank loans	3,964	43,560	47,524	48,762
Debt related to financial leasing	-	-	-	-
Other financial debts	906	-	906	-
Employee profit sharing	694	1,802	2,496	3,470
Current bank overdrafts	20	-	20	8
Financial debt	**5,585**	**45,362**	**50,946**	**52,240**
Investment securities	-	-	-	-
Cash and cash equivalents	-47,559	-	-47,559	-28,146
Net debt (Including employee profit sharing)	**-41,974**	**45,362**	**3,388**	**24,094**

Net debt is €0.9 million at 30 June 2018 and €20.6 million at 30 June 2017, in line with banking covenants, analyzed as follows:

(in thousands of euros)	Current	Non- current	30/06/2018	31/12/2017
Bank loans	3,964	43,560	47,524	48,762
Debt related to financial leasing	-	-	-	-
Other financial debts	906	-	906	-
Current bank overdrafts	20	-	20	8
Financial debt	**4,891**	**43,560**	**48,450**	**48,770**
Investment securities	-	-	-	-
Cash and cash equivalents	-47,559	-	-47,559	-28,146
Net debt	**-42,668**	**43,560**	**892**	**20,624**

Note 14 Deferred Income

Compared to 31 December 2017, the increase in deferred income at less than one year was primarily the result of *subscription* operations in France and the United States.

Note15 Other current liabilities

(in thousands of euros)	30/06/2018	31/12/2017
Employees	15,785	18,636
Social security	5,810	8,878
Value added tax	3,967	6,576
Other tax liabilities	0	-
Corporate income tax	1,720	2,806
Other liabilities	3,700	11,730
Restructuring provision	112	112
Dividend to pay	-	-
Total	**31,094**	**48,738**

Other current liabilities fell due to the decrease in the Group's workforce over the first half of 2018.

The decline in Value Added Tax was a result of the seasonality of license sales, traditionally with strong year-end activity. Other liabilities are primarily impacted by movements in the Group's current accounts.

Other information

Note 16 Related-party transactions

The agreements concluded with the parties related to the Axway Group were identified in Note 3.3 “Related-party transactions” to Axway's 2017 Registration Document, filed with the *Autorité des marchés financiers* on 26 April 2018 under no. D.18-0393, available online at http://www.investors.axway.com. In addition, the 2017 Registration Document includes the report on regulated agreements.

There is no additional agreement concluded with parties related to the Axway Group during the first half of 2018, other than those described in the 2017 Registration Document.

Note 17 Off-balance-sheet commitments and contingent liabilities

The Group's off-balance sheet commitments are those made or received by Axway and its subsidiaries. These commitments were not subject to any significant changes compared with 31 December 2017.

At 30 June 2018, the Group complied with all covenants and commitments included in the revolving credit contract.

Note that the net financial debt figure used in the calculations does not include employee profit-sharing liabilities.

This syndicated facility is for the amount of €125 million. It has been extended and will mature in July 2021.

Three financial ratios must be met under covenants entered into with partner banking establishments. These ratios are:

- “net debt/EBITDA” ratio of below 3.0 from the signing date until 30 June 2018 and below 2.5 from 31 December 2018 and 2.0 from 31 December 2020. This ratio was 0.019 at 30 June 2018;
- EBITDA/financial expense ratio of above 5.0 throughout the term of loan. This ratio was 101.42 at 30 June 2018;
- net debt/shareholders' equity ratio of lower than 1.0 throughout the term of the loan. This ratio was 0.0025 at 30 June 2018.

The €36 million credit line on the RCF (Revolving Credit Facility) present at 31 December 2017 is still present at 30 June 2018, bringing the available amount of the syndicated facility to €89 million.

On 20 June 2018, Axway Software received a proposed correction from the tax authorities to an audit of fiscal years 2014-2016.

Axway Software accepted a portion of the proposed increase and applied it to the half-year financial statements. However, Axway disputed the other party's grounds for the increase.

The entirety of the proposed tax increase could be charged against the non-capitalized tax losses which may be carried forward.

Note 18 Exceptional events and legal disputes

As far as the Group is aware, and notwithstanding the information provided in this report, there were no disputes or litigation known of or under way that may have a significant negative impact on the Group's financial position, at the date of this report.

Note 19 Events after the reporting period

Between 1 July 2018 and the date of the Board of Director's meeting, there were no significant events likely to impact the financial statements presented.

Statutory Auditor's report on the interim financial statements

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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 performed:

- a limited review of the accompanying condensed interim consolidated financial statements of Axway Software for the period from 1 January to 30 June 2018;
- verification of 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 mainly consists of interviewing management in charge of accounting and financial matters and applying analytical procedures. These procedures are less broad in scope than those required for an audit performed in accordance with French auditing standards. Accordingly, a limited review only provides moderate assurance, which is less assurance than that provided by an audit, that the financial statements taken as a whole are free of material misstatements.

Based on our limited review, we did not identify any material misstatements that would cause us to believe that the condensed interim consolidated financial statements do not comply with IAS 34, the IFRS relating to interim financial reporting adopted by the European Union.

Without calling into question the opinion expressed above, we would like to draw your attention to Notes 1.2.1 and 1.2.2 to the condensed interim consolidated financial statements, which outline the first-time adoption of IFRS 15 and IFRS 9, respectively.

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 and Paris La Défense, 27 July 2018

The Statutory Auditors

Auditeurs & conseils associés – Aca Nexia	Mazars
Sandrine Gimat	Bruno Pouget

Declaration by the person responsible for the interim financial report

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"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, 27 July 2018

Patrick Donovan

Chief Executive Officer

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