

SA ESKER

A French corporation with an Executive Board and a Supervisory Board with share capital of €11,315,730.

Registered office: 113 Boulevard de la Bataille de Stalingrad

69100 Villeurbanne

Lyon Trade and Company Register (RCS) No. 331 518 498

Consolidated financial statements for the six-month period ended June 30, 2019

Translation disclaimer: This document is a free translation of the original French language version of the interim financial report (*rapport semestriel*) provided solely for the convenience of English-speaking readers. This report should consequently be read in conjunction with, and construed in accordance with French law and French generally accepted accounting principles. While all possible care has been taken to ensure that this translation is an accurate representation of the original French document, this English version has not been audited by the company's statutory auditors and in all matters of interpretation of information, views or opinions expressed therein, only the original language version of the document in French is legally binding. As such, the translation may not be relied upon to sustain any legal claim, nor be used as the basis of any legal opinion and Aubay expressly disclaims all liability for any inaccuracy herein.

CONSOLIDATED BALANCE SHEET

ASSETS (€ thousands)	Notes	06/30/2019	12/31/2018
Goodwill	2	6,113	6,082
Intangible assets	3	22,689	22,014
Property, plant and equipment	4/5	8,653	7,050
Financial assets		3,734	3,745
Equity-accounted investments		995	744
Non-current assets		42,184	39,635
Inventories		187	147
Trade receivables		21,868	20,516
Deferred tax assets		521	524
Other receivables and accruals		4,124	5,035
Cash and marketable securities	6	19,247	22,794
Current assets		45,947	49,016
TOTAL ASSETS		88,131	88,651
SHAREHOLDERS' EQUITY AND LIABILITIES (€ thousands)	Notes	06/30/2019	12/31/2018
Share capital		11,445	11,218
Additional paid-in capital		20,105	19,681
Consolidated income (loss)		5,450	8,843
Reserves and retained earnings		14,658	8,027
Shareholders' equity	7	51,658	47,769
<i>Attributable to the parent</i>		<i>51,658</i>	<i>47,769</i>
<i>Attributable to non-controlling interests</i>		<i>0</i>	<i>0</i>
Provisions for contingencies and expenses	9	1,498	1,492
Borrowings and financial liabilities	10	7,166	9,318
Trade payables		6,941	6,157
Tax and employee-related liabilities		12,079	14,415
Deferred tax liabilities		432	430
Other payables and accruals	11	8,357	9,070
Payables		34,975	39,390
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		88,131	88,651

CONSOLIDATED INCOME STATEMENT

(€ thousands)	Note	06/30/2019	% of sales	06/30/2018	% of sales
Sales	12	50,135	100%	42,415	100%
Own production of goods and services capitalized	13	3,192	6%	2,968	7%
Other operating income		562	1%	527	1%
Cost of sales		-897	-2%	-720	-2%
Change in inventory		28	0%	-27	0%
Other operating expenses		-13,309	-27%	-11,088	-26%
Staff costs		-27,883	-56%	-23,481	-55%
Tax and similar expenses		-668	-1%	-600	-1%
Net allowances for amortization and depreciation		-3,650	-7%	-3,182	-8%
Net allowances for provisions		-287	-1%	-172	0%
Operating profit		7,223	14%	6,640	16%
Net financial income / (expense)	14	116	0%	2	0%
Current operating income of consolidated operations		7,339	15%	6,642	16%
Net exceptional items		139	0%	14	0%
Income taxes		-2,279	-5%	-1,895	-4%
Share of income from equity-accounted associates		251	1%	151	0%
Allowances for goodwill amortization		0		0	
Net income		5,450	11%	4,912	12%
<i>Basic earnings per share in euros</i>	<i>15</i>	<i>1.02</i>		<i>0.93</i>	
<i>Diluted earnings per share in euros</i>		<i>1.00</i>		<i>0.85</i>	

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(€ thousands)	Capital stock and additional paid-in capital	Translation difference	Net income and retained earnings	Equity attributable to the parent	Non-controlling interests	Consolidated shareholders' equity
Balance at January 1, 2018	30,238	-972	10,354	39,620	0	39,620
Annual profit/(loss)			4,912	4,912		4,912
Currency translation adjustments		367		367		367
Stock options	313			313		313
Treasury shares				0		0
Dividends			-1,756	-1,756		-1,756
Changes in Group structure of consolidated operations				0		0
Other changes				0		0
Balance as of June 30, 2018	30,551	-605	13,510	43,456	0	43,456
Balance at January 1, 2019	30,899	-446	17,316	47,769	0	47,769
Annual profit/(loss)			5,450	5,450		5,450
Currency translation adjustments		122		122		122
Stock options	554			554		554
Treasury shares				0		0
Dividends			-2,237	-2,237		-2,237
Changes in Group structure of consolidated operations			0	0		0
Other changes				0		0
Balance as of June 30, 2019	31,453	-324	20,529	51,658	0	51,658

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ thousands)	06/30/2019	06/30/2018	12/31/2018
Consolidated net income	5,450	4,912	8,843
Adjustments to reconcile non-cash items to cash generated from operations:			
Net allowances for depreciation and provisions	3,676	3,169	7,170
- Carrying value of assets sold	11	0	65
- Proceeds from the disposal of assets	-15	-3	-59
Cash flows after net financial expense	9,122	8,078	16,019
Tax liabilities	2,279	1,895	2,940
Taxes paid	-1,887	-1,335	-2,795
Interest expense and income	25	35	120
Change in operating working capital	-3,035	-1,643	-650
NET CASH PROVIDED BY/ (USED IN) OPERATING ACTIVITIES	6,504	7,030	15,634
Acquisition of intangible assets	-5,954	-3,831	-7,792
Acquisition of property, plant and equipment	15	3	279
Proceeds from the disposal of PPE and intangible assets	-80	-274	-46
Change in non-current investments	-282	-288	-543
NET CASH PROVIDED BY/ (USED IN) INVESTING ACTIVITIES	-6,301	-4,390	-8,102
Dividends paid to shareholders of the parent company	-2,237	-1,756	-1,756
Capital increases or contributions			
Issuance costs for capital increases			
Amount received from the exercise of stock options	554	313	661
Change in treasury shares			
Repayment of borrowings – finance leases	-2,177	-2,231	-4,398
Change in borrowings			
NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES	-3,860	-3,674	-5,493
NET CHANGE IN CASH AND CASH EQUIVALENTS	-3,657	-1,034	2,039
Effect of exchange rate changes on cash	110	84	124
Cash and cash equivalents at beginning of year	22,794	20,632	20,632
Cash and cash equivalents at end of year	19,247	19,682	22,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies, basis of consolidation

Adoption and approval of the accounts

The condensed consolidated financial statements of Esker Group at June 30, 2019 were adopted by the Executive Board and submitted for approval to the Supervisory Board on September 12, 2019.

Statement of compliance

The consolidated financial statements were presented on the basis of French law and French GAAP and notably the accounting policies set out in Regulation 99-03 of April 29, 1999 on the French General Chart of Accounts (*Plan Comptable Général*) of France's Accounting Regulations Committee (*Comité de Réglementation Comptable* or "CRC") and the subsequent updates resulting from CRC Regulations 2005-05 and 2000-06.

Also applied were CRC Regulation 2004-06 of November 23, 2004 on the definition, recognition and measurement of assets and CRC Regulation 2002-10 of December 12, 2002 on the depreciation, amortization and impairment of assets.

Use of estimates

The financial statements reflect the assumptions and estimates made by the Group. The preparation of financial statements requires the use of estimates and assumptions to measure certain assets, liabilities expenses and commitments. Actual data may differ from those resulting from these assumptions and estimations.

Group structure for consolidation

There have been no changes in the consolidation scope in the 2019 first half.

Company	Head office	2019		2018		Consolidation method (1)
		Controlling interest (%)	Ownership interest (%)	Controlling interest (%)	Ownership interest (%)	
ESKER	Lyon (France)	Parent company				
Esker GmbH	Essen (Germany)	100.0%	100.0%	100.0%	100.0%	F
Esker Ltd	Derbyshire (United Kingdom)	100.0%	100.0%	100.0%	100.0%	F
Esker Srl	Milan (Italy)	100.0%	100.0%	100.0%	100.0%	F
Esker Iberica SI	Madrid (Spain)	99.8%	99.8%	99.8%	99.8%	F
Esker Inc.	Madison (United States)	100.0%	100.0%	100.0%	100.0%	F
Esker Australia Pty Ltd	Sydney (Australia)	100.0%	100.0%	100.0%	100.0%	F
Esker Documents Automation Asia Pte Ltd	Singapore	100.0%	100.0%	100.0%	100.0%	F
Esker Documents Automation (M) Sdn Bhd	Kuala Lumpur (Malaysia)	100.0%	100.0%	100.0%	100.0%	F
Esker Solution Canada Inc.	Montreal (Canada)	100.0%	100.0%	100.0%	100.0%	F
Esker Documents Automation (HK) Ltd	Hong Kong	100.0%	100.00%	100.0%	100.0%	F
CalvaEdi	Paris (France)	100.0%	100.0%	100.0%	100.0%	F
TermSync	Madison (United States)	100.0%	100.0%	100.0%	100.0%	F
E-integration	Ratingen (Germany)	100.0%	100.0%	100.0%	100.0%	F
Neotouch Cloud Solution	Dublin (Ireland)	30.0%	30.0%	30.0%	30.0%	E.M.

(1): F : Full Consolidation, E.M. : Equity method

Seasonal nature of business for the period

The Group's business is characterized by a degree of seasonality with revenue historically higher in the last quarter. However, the magnitude of this seasonal variation is nevertheless variable in nature and as such difficult to quantify.

2. Notes to the balance sheet, income statement and statement of cash flows

Note 1 Segment reporting

Esker Group has chosen to apply geographical segmentation as its sole criteria for segment reporting. According to the criteria, business is broken down into six main segments: France (of which CalvaEdi), Germany (of which e-integration), the United Kingdom, southern Europe, Asia-Pacific and the Americas.

As of June 30, 2019 ⁽¹⁾ <i>in thousands of euros</i>	France	Germany	United Kingdom	Southern Europe	Australia, Asia	Americas	Total Group
External sales	21,057	2,919	2,248	2,811	2,562	18,538	50,135
Property, plant and equipment and intangible assets	27,066	210	17	658	128	3,263	31,342

As of June 30, 2018 ⁽¹⁾ <i>in thousands of euros</i>	France	Germany	United Kingdom	Southern Europe	Australia, Asia	Americas	Total Group
External sales	17,637	3,147	1,949	2,201	2,185	15,296	42,415
Property, plant and equipment and intangible assets	26,185	99	29	107	46	2,163	28,629

Note 2 Goodwill

<i>In thousands of euros</i>	06/30/2019			12/31/2018
	Gross	Amortization	Net	Net
TermSync	5,083	94	4,989	4,958
CalvaEdi	137	2	135	135
E-integration	989		989	989
TOTAL GOODWILL	6,209	96	6,113	6,082

Changes recorded in H1 2019

As of 06/30/2019 ⁽¹⁾ <i>in thousands of euros</i>	Opening balance	Increases	Reductions	Currency effect	Closing balance
TermSync	5,052			31	5,083
CalvaEdi	137				137
E-integration	989				989
GOODWILL - GROSS VALUE	6,178	0	0	31	6,209
TermSync	94				94
CalvaEdi	2				2
E-integration	0				0
GOODWILL - AMORTIZATION	96	0	0	0	96
GOODWILL - NET VALUE	6,082	0	0	31	6,113

As from July 1, 2016, goodwill is amortized over the period of its useful life. Goodwill is considered indefinite and is no longer amortized.

Goodwill is tested for impairment in the period.

Note 3 Intangible assets

In thousands of euros	06/30/2019			12/31/2018
	Gross	Amortization	Net	Net
Development expenditures	36,705	25,142	11,563	11,054
Trademarks	1,630		1,630	1,627
Software	1,787	1,695	92	131
Customer-related intangible assets	7,410	1,195	6,215	6,428
Intangible assets in progress	3,189		3,189	2,774
TOTAL INTANGIBLE ASSETS	50,721	28,032	22,689	22,014

Development expenditures recorded under intangible assets include:

- Costs incurred for the development of document process automation applications;
- Costs for the development of on-demand services for our complete offering of solutions.

Changes recorded in H1 2019

As of 06/30/2019 In thousands of euros	Opening balance	Increases	Reductions	Other changes	Closing balance
Development expenditures	33,922			2,783	36,705
Trademarks	1,627			3	1,630
Software	1,836	37	-91	5	1,787
Customer-related intangible assets	7,410				7,410
Intangible assets in progress	2,774	3,191		-2,776	3,189
INTANGIBLE ASSETS – GROSS VALUE	47,569	3,228	-91	15	50,721
Development expenditures	22,868	2,272		2	25,142
Software	1,705	76	-90	4	1,695
Customer-related intangible assets	982	213			1,195
INTANGIBLE ASSETS – AMORTIZATION	25,555	2,561	-90	6	28,032
INTANGIBLE ASSETS – NET VALUE	22,014	667	-1	9	22,689

Changes recorded concern development expenditures capitalized in the period and concerning mainly expenditures incurred in connection with our SaaS (Software as a Service) solutions.

Note 4 Property, plant and equipment

06/30/2019	12/31/2018
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<i>In thousands of euros</i>	Gross	Amortization	Net	Net
Land	1,077		1,077	983
Buildings	1,179	82	1,097	815
Office and computer equipment	6,079	3,628	2,451	1,660
Fixtures and improvements	3,363	880	2,483	2,007
Equipment and tooling	6,838	5,963	875	1,006
Transport equipment	62	22	40	48
Furniture	985	355	630	531
TOTAL PROPERTY, PLANT AND EQUIPMENT	19,583	10,930	8,653	7,050

Changes recorded in H1 2019

<i>As of 06/30/2019</i>	<i>In thousands of euros</i>	Opening balance	Increases	Reductions	Other changes	Closing balance
Land		983	94			1,077
Buildings		873	306			1,179
Office and computer equipment		5,017	1,271	-215	6	6,079
Fixtures and improvements		2,722	640	-2	3	3,363
Equipment and tooling		6,695	249	-108	2	6,838
Transport equipment		64		-2		62
Furniture		816	167		2	985
PROPERTY, PLANT AND EQUIPMENT – GROSS VALUE		17,170	2,727	-327	13	19,583
Buildings		58	24			82
Office and computer equipment		3,357	466	-200	5	3,628
Fixtures and improvements		715	166	-1		880
Equipment and tooling		5,689	378	-108	4	5,963
Transport equipment		16	7	-1		22
Furniture		285	69		1	355
PROPERTY, PLANT AND EQUIPMENT – DEPRECIATION		10,120	1,110	-310	10	10,930
PROPERTY, PLANT AND EQUIPMENT – NET VALUE		7,050	1,617	-17	3	8,653

Note 5 Finance leases

<i>In thousands of euros</i>	Gross	Accumulated amortization	Net
As of December 31, 2017	6,096	-4,273	1,823
Increase	0	-849	-849
Decrease	-149	149	0
Translation difference	0	0	0
As of December 31, 2018	5,947	-4,973	974
Increase		-364	-364
Decrease			0
Translation difference			0
As of June 30, 2019	5,947	-5,337	610

Finance lease commitments for the six-month period ended June 30, 2019 break down as follows:

<i>In thousands of euros</i>	Less than 1 year	2-5 years	More than 5 years	TOTAL
Total value of future minimum lease payments	363	82		445
Discounted value of future minimum lease payments	354	80		434

Note 6 Cash and marketable securities

<i>In thousands of euros</i>	Net value 06/30/2019	Net value 12/31/2018
Marketable securities	393	493
Cash and cash equivalents	18,854	22,301
TOTAL CASH AND MARKETABLE SECURITIES	19,247	22 94

Marketable securities correspond to shares in Sicav money market funds and time deposits not subject to a risk of loss in value.

Note 7 Shareholders' equity

	Amount (€ thousands)	Number of shares
Capital stock at 12/31/2017	10,961	5,480,366
Capital increases	125	62,600
Exercise of stock options and warrants	132	65,999
Capital stock at 12/31/2018	11,218	5,608,965
Capital increases	98	48,900
Exercise of stock options and warrants	129	64,733
CAPITAL STOCK AT 06/30/2019	11,445	5,722,598

The Company is subject to no specific regulatory or contractual obligations in respect to the share capital. The Group does not have a specific policy concerning share capital. The balance between recourse to external financing and equity financing through capital increases by the issue of new shares is assured on a case-by-case basis according to the transactions under consideration. Share capital monitored by the Group includes the same components as consolidated shareholders' equity.

A dividend of €0.41 per share was paid for the period.

Note 8 Stock option and restricted stock unit plans

Changes in the number of stock options, restricted stock units (RSU) and warrants granted to Group employees in the 2019 first half break down as follows:

	Stock options		Bonus shares granted, not issued	
	Quantity	Weighted average exercise price in €	Quantity	Weighted average exercise price in €
Balance exercisable at 12/31/2018	198,380	20.07	48,900	46.55
Granted	28,750	79.75	82,300	84.20
Exercised	-64,733	8.56	-48,900	46.55
Matured or forfeited for reason of departure	-1,500	2.74	0	0.00
Balance exercisable at 06/30/2019	160,897	35.78	82,300	84.20

Note 9 Provisions

<i>In thousands of euros</i>	12/31/2018	Increases, allowances of the period	Payments in the period	Reversals of provisions unused in the period	Other changes	06/30/2019
Provisions for contingencies and expenses	130			(130)		0
Pension liabilities	1362	147	-11			1498
TOTAL PROVISIONS	1,492	147	-11	-130	0	1,498

Pension liabilities consist of commitments relating to retirement severance payments for employees of Esker France and contributions payable to employees of Esker Italy.

Pension obligations for retirement severance benefits for Esker France employees are calculated annually using the projected unit credit method. This calculation is made in accordance with the provisions provided for under the applicable collective bargaining agreement (SYNTEC) according to the following criteria:

- Estimated age of retirement,
- Seniority of personnel on the retirement date;
- Probability of continued presence at retirement age;
- Salary escalation rate;
- Discount rate.

In addition, since 2016, a portion of the pension obligations in France have been partially covered by an external plan destined to be gradually increased through premium payments. There were no additional payments in the 2019 first half.

NOTE 10 Financial liabilities

<i>In thousands of euros</i>	06/30/2019	12/31/2018
Finance leases	628	998
Bank debt	6,538	8,320
TOTAL BORROWINGS	7,166	9,318

Finance leases

Borrowings recognized represent the reverse entry of capitalized finance leases as described above in note 4.

Note 11 Other payables and accruals

<i>In thousands of euros</i>	06/30/2019	12/31/2018
Deferred revenue	5,440	6,250
Customer deposits and guarantees	2,849	2,765
Other payables	68	55
TOTAL OTHER PAYABLES AND ACCRUALS	8,357	9,070

Deferred revenue concerns primarily maintenance contracts for which sales are recognized on a straight-line basis over the duration of the contract.

Note 12 Revenue

<i>In thousands of euros</i>	06/30/2019	06/30/2018
Software sales	1,225	982
Fax card sales	164	305
Contracts for product updates and maintenance	3,494	3,683
Services	8,657	7,872
Traffic	36,595	29,573
NET SALES	50,135	42,415

Note 13 Research and development expenses

<i>In thousands of euros</i>	06/30/2018	06/30/2018
R&D expenses for the period	-4,627	-4,183
Capitalized development expenditures	3,192	2,968
Amortization of capitalized development expenditures	-2,272	-1,969
RESEARCH AND DEVELOPMENT EXPENSES NOT CAPITALIZED	-3,707	-3,184

An analysis of development expenditures recorded under intangible assets in the 2019 first half is presented in Note 2.

Note 14 Net financial income (expense)

<i>In thousands of euros</i>	06/30/2019	06/30/2018
Financial income	288	75
Net currency gains/(losses)	-5	-37
Financial expenses	-167	-36
NET FINANCIAL INCOME / (EXPENSE)	116	2

Note 15 Earnings per share

	06/30/2019		06/30/2018	
	Net earnings (in euros)	Weighted average number of shares	Net earnings (in euros)	Weighted average number of shares
Basis of calculation for basic earnings per share	5,450,000	5,353,058	4,912,000	5,272,262
Dilutive stock options		83,415		141,609
Dilutive bonus shares		3,277		370,509
Basis of calculation for diluted earnings per share	5,450,000	5,439,750	4,912,000	5,784,380
Basic earnings per share		1.02		0.93
Diluted earnings per share		1.00		0.85

Basic net earnings per share and diluted net earnings per share are calculated by dividing the portion of net income reverting to the Group by the appropriate number of shares. For basic net earnings per share, this is the weighted average number of ordinary shares outstanding after excluding treasury shares held by the company.

For diluted net earnings per share, the calculation is based on the weighted average number of potential shares outstanding in the period. This includes notably shares taken into account to calculate basic net earnings per share plus dilutive stock options, warrants and bonus shares.

Note 16 Transactions with related parties

Commercial relations between majority-owned Esker Group companies

In connection with commercial relations between Esker Group member companies, amounts are invoiced for the following:

- Sales of solutions by the parent company to subsidiaries,
- Royalties,
- Marketing expense chargebacks,
- Staff costs chargebacks.

All these transactions are carried out on an arms-length basis and fully eliminated in the consolidated financial statements.

Other transactions with related parties

Compensation and benefits of any nature paid to corporate officers considered as related parties are presented below.

<i>In thousands of euros</i>	06/30/2019	06/30/2018
Supervisory Board	50	50
Executive Board	463	458
Total	513	508

Note 17 Off-balance sheet commitments

Off-balance sheet commitments and contingent liabilities are presented below.

Contractual obligations (€ thousands)	TOTAL	Payables by maturity			
		Less than 1 year	1-5 years	More than 5 year	Expense of the period
Long-term debt	-				
Lease finance obligations	Information disclosed in note 4				
Operating leases	12,412	2,933	7,630	1,849	1,740
Irrevocable purchase obligations	-				
Other long-term obligations	-				
TOTAL	12,412	2,933	7,630	1,849	1,740

Note 18 Post-closing events

None.