2016/2017

SIX-MONTH FINANCIAL REPORT AS OF DECEMBER 31, 2016

Avanquest®

The English language version of this report is a free translation from the original, which was prepared in French. Only the French version of this six-month financial report has been submitted to the AMF. It is therefore the only version that is binding in law.

Table of contents

Copies of this six-month financial report are available at Avanquest's head office, located at 89-91, boulevard National – 92257 La Garenne-Colombes Cedex – France, as well as on the website of the French financial markets authority (Autorité des marchés financiers) http://www.amf-france.org and on the Avanquest website http://www.avanquest-group.com.

1. CERTIFICATION OF THE PERSON RESPONSIBLE

I certify that to my knowledge, the summarized consolidated financial statements for the past six-month period have been drawn up pursuant to the applicable accounting standards, and give a true picture of the assets, the financial position, and the profits of the Company and of all of the businesses included in the consolidation, and that the six-month activity report attached hereto presents a true picture of the significant events which took place during the first six months of the fiscal year, their impact upon the financial statements, the principal transactions between related parties, as well as a description of the principal risks and uncertainties for the remaining six months of the fiscal year.

La Garenne-Colombes, March 29, 2017

Pierre Cesarini
Chairman of the Management Board

2. SUMMARIZED SIX-MONTH CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

All information is expressed in thousands of euros, unless otherwise noted.

2.1 Statement of comprehensive income

(in thousands of euros)	Notes	12/31/2016 (6 months)	12/31/2015 (6 months)
NET REVENUES	**6.2**	**71,930**	**71,579**
Raw materials and purchases of goods		(22,255)	(29,691)
Other purchases and external expenses		(32,975)	(27,344)
Taxes, fees and similar payments		(86)	(62)
Employee expenses		(13,492)	(12,554)
Depreciation and provisions (net of reversals)		(819)	(3,293)
Other recurring operating income and expenses		(4,307)	(5,300)
RECURRING OPERATING INCOME		**(2,004)**	**(6,666)**
Other operating income and expenses	6.3	(157)	(315)
OPERATING INCOME		**(2,161)**	**(6,981)**
Net borrowing costs		(36)	(67)
Other financial expenses		297	(328)
Other financial income		14	55
FINANCIAL INCOME	**6.4**	**275**	**(340)**
Tax expense		(22)	(703)
Share of profit or loss of associates		(29)	(61)
NET INCOME FROM CONTINUING OPERATIONS		**(1,937)**	**(8,086)**
NET INCOME FROM DISCONTINUED OPERATIONS		**-**	**-**
NET EARNINGS		**(1,937)**	**(8,086)**
Share of equity owners of the parent company		(1,937)	(8,086)
Share of non-controlling interests		-	-
EARNINGS PER SHARE			
Earnings per share, Group share *(in €)*		(0.01)	(0.02)
Earnings per share, Group share, after potential dilution *(in €)*		(0.00)	(0.02)
NET EARNINGS		**(1,937)**	**(8,086)**
Other items of comprehensive income			
Exchange rate differentials for foreign operations		231	(263)
Exchange rate differentials on net investments in foreign operations		(816)	114
TOTAL OTHER ITEMS OF COMPREHENSIVE INCOME		**(585)**	**(149)**
COMPREHENSIVE INCOME		**(2,522)**	**(8,235)**
Share of equity owners of the parent company		(2,522)	(8,235)
Share of non-controlling interests		-	-

All items of comprehensive income are recyclable in profits/losses, except for the actuarial differences on retirement commitments.

2.2 Statement of financial position

(in thousands of euros)	Notes	12/31/2016	6/30/2016
Intangible assets	4.1	1,264	1,497
Property, plant and equipment		456	458
Financial assets		357	451
Equity interests in associated entities		253	275
Other non-current receivables	4.2	350	363
NON-CURRENT ASSETS		**2,680**	**3,044**
Inventories and works-in-progress		4,744	5,007
Trade receivables		4,334	4,696
Current tax assets		805	777
Other current receivables	4.2	3,139	3,892
Cash and cash equivalents(1)	4.3	22,461	11,086
CURRENT ASSETS		**35,483**	**25,457**
TOTAL ASSETS		38,163	28,502

(in thousands of euros)	Notes	12/31/2016	6/30/2016
Share capital		37,532	37,532
Share premium and consolidated reserves		(33,488)	(6,850)
Net income, Group share		**(1,937)**	**(28,588)**
EQUITY – SHARE OF EQUITY OWNERS OF THE PARENT COMPANY	**5.1**	**2,107**	**2,093**
Non-controlling interests		-	-
TOTAL EQUITY		**2,107**	**2,093**
Non-current financial liabilities	5.2	1,391	585
Non-current provisions		25	-
Other non-current liabilities(2)	5.3	573	549
TOTAL NON CURRENT LIABILITIES		**1,989**	**1,134**
Current provisions		708	747
Current financial liabilities	5.2	753	733
Trade payables	5.4	26,726	19,565
Current tax liabilities		-	1
Other current liabilities	5.5	5,880	4,229
CURRENT LIABILITIES		**34,067**	**25,275**
TOTAL LIABILITIES		38,163	28,502

(1) The fair value assessment of these assets refers to an active market.
(2) According to IFRS 7 the fair value assessment of this liability relies upon techniques based on observable market data and is classified as level 2.

2.3 Statement of cash flow

(in thousands of euros)	Notes	12/31/2016 (6 months)	12/31/2015 (6 months)[1]
Operating activities			
Net income of all consolidated accounts		(1,937)	(8,086)
Share of profit or loss of associates		29	61
Elimination of items without any impact on the cash position or not linked with operations:			
• Net depreciation and provisions (excluding current provisions)		397	2,740
• Share-based payments (IFRS 2) and other restatements		47	34
• Net borrowing costs recognized		38	73
• Gains and losses on sale		-	(40)
• Tax expense (including deferred taxes) recognized		22	703
• Other items with no cash impact		(267)	-
Cash flow position		***(1,671)***	***(4,514)***
Changes in working capital requirements		9,385	842
Taxes paid		(2)	(350)
Net financial interest paid		(33)	(74)
Cash flow from operations		**7,679**	**(4,097)**
Investment transactions			
Acquisitions of intangible assets		(5)	(823)
Acquisitions of property, plant and equipment		(106)	(189)
Disposals of property, plant and equipment and intangible assets		0	44
Acquisitions of financial assets		(115)	(13)
Disposals of financial assets		217	40
Impact of changes in scope[2]		500	-
Net cash flow related to investments		**491**	**(942)**
Financing transactions			
Capital increase[3]		-	(2,182)
Dividends received from companies accounted for using the equity method		-	2,074
Share buyback/Sale	7.2	1,930	-
Proceeds from borrowings	7.3	2,159	
Disbursements related to borrowings	5.2	(836)	(3,122)
Net cash flow related to financing		**3,253**	**(3,230)**
Net cash from discontinued operations		**-**	**-**
Changes in cash position		***11,423***	***(8,269)***
Opening cash[4]		11,066	30,431
Impact from variation in exchange rates on cash and cash equivalents		(40)	(62)
Closing cash[5]		22,449	22,099

(1) Correction of error in the presentation of the statement of cash flow detailed below.
(2) See below for table presenting changes in scope.
(3) The costs relating to the capital increase and not disbursed at June 30, 2015, or €2,046 thousand, were adjusted for the net amount of the capital increase and restated accordingly in the change in working capital at December 31, 2015 in the same proportion.
(4) Cash and cash equivalents = €11,086 thousand.
Bank account overdrafts = €20 thousand.
(5) Cash and cash equivalents = €22,461 thousand.
Bank account overdrafts = €12 thousand.

The impact of changes in scope is analyzed below:

	12/31/2016 (6 months)	12/31/2015 (6 months)
The impact of the result of the disposal in N-1 of Avanquest Software Publishing Ltd	500	
Impact of changes in scope, net of dividends paid to minority shareholders	**500**	**-**

Following the sale of the subsidiary Avanquest Software Publishing Ltd that occurred on April 30, 2016, a portion of the deferred price at £450 thousand (€500 thousand) was paid over the six-month period.

Correction to the statement of cash flow at December 31, 2015:

(in thousands of euros)	12/31/2015 (6 months) published	12/31/2015 (6 months) restated
Net income of all consolidated accounts	(8,086)	(8,086)
Cash flow position	***(4,514)***	***(4,514)***
Changes in working capital requirements	(1,204)	842
Taxes paid	(350)	(350)
Net financial interest paid	(74)	(74)
Cash flow from operations	***(6,142)***	***(4,097)***
Net cash flow related to investment	***(942)***	***(942)***
Capital increase	(137)	(2,182)
Dividends received from companies accounted for using the equity method	2,074	2,074
Proceeds from borrowings	(3,122)	(3,122)
Net cash flow related to financing	**(1,185)**	**(3,230)**
Changes in cash position	***(8,269)***	***(8,269)***

2.4 Statement of change in equity

(in thousands of euros)	Capital	Issue premium	Translation reserves	Consolidated reserves	Profit/Loss	Group share	Non-controlling interests	Total
AS OF JUNE 30, 2015	**37,498**	**120,819**	**(6,759)**	**(115,760)**	**(6,531)**	**29,267**	**-**	**29,267**
Exchange rate differentials			(149)			(149)		(149)
Other items of comprehensive income	**-**	**-**	**(149)**	**-**	**-**	**(149)**	**-**	**(149)**
Income for the period					(8,086)	(8,086)		(8,086)
Comprehensive income	**-**	**-**	**(149)**	**-**	**(8,086)**	**(8,235)**	**-**	**(8,235)**
Capital increase*	24	(160)				(136)		(136)
Appropriation of retained earnings				(6,531)	6,531	-		-
Share-based payments				34		34		34
AS OF DECEMBER 31, 2015	**37,522**	**120,659**	**(6,908)**	**(122,257)**	**(8,086)**	**20,930**	**-**	**20,930**
Actuarial gains and losses on post-employment obligations				(10)		(10)		(10)
Exchange rate differentials			925			925		925
Other items of comprehensive income	**-**	**-**	**925**	**(10)**	**-**	**915**	**-**	**915**
Income for the period					(20,502)	(20,502)		(20,502)
Comprehensive income	**-**	**-**	**925**	**(10)**	**(20,502)**	**(19,587)**	**-**	**(19,587)**
Treasury shares				(2,890)		(2,890)		(2,890)
Capital increase	10	(10)				-		-
Share-based payments				47		47		47
Changes in scope			3,594			3,594		3,594
AS OF JUNE 30, 2016	**37,532**	**120,649**	**(2,389)**	**(125,110)**	**(28,588)**	**2,094**	**-**	**2,094**
Actuarial gains and losses on post-employment obligations						-		-
Exchange rate differentials			(585)			(585)		(585)
Other items of comprehensive income	**-**	**-**	**(585)**	**-**	**-**	**(585)**	**-**	**(585)**
Income for the period					(1,937)	(1,937)		(1,937)
Comprehensive income	**-**	**-**	**(585)**	**-**	**(1,937)**	**(2,522)**	**-**	**(2,522)**
Treasury shares				2,488		2,488		2,488
Appropriation of retained earnings				(28,588)	28,588	-		-
Share-based payments				47		47		47
AS OF DECEMBER 31, 2016	**37,532**	**120,649**	**(2,974)**	**(151,163)**	**(1,937)**	**2,107**	**-**	**2,107**

* *The amount of the transaction costs connected to the capital increase of June 2015 has been deducted from the share premium account. These costs correspond mainly to the balance of the fees of the financial intermediaries in charge of the transaction.*

2.5 Notes to the summarized six-month consolidated financial statements

NOTE 1 HIGHLIGHTS OF THE PERIOD

For the highlights of the period see section 3 Six-month activity report.

NOTE 2 ACCOUNTING PRINCIPLES, RULES AND METHODS

The consolidated financial statements of the Avanquest group, as of December 31, 2016, include the company Avanquest SA and its subsidiaries (collectively, “the Group”) and the Group’s share in associates or joint ventures.

Avanquest is a French company listed on the Paris Bourse, whose registered office is situated at 89-91, boulevard National, 92250 La Garenne-Colombes.

The accounting principles used for the preparation of the consolidated financial statements are consistent with IFRS standards and interpretations as adopted by the European Union on December 31, 2016 and available from the website http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission. The summarized censdidated financial statements of Avanquest, as of December 31st, 2016, have been made in compliance with IAS 34 standard related to interim financial information.

These accounting policies are consistent with those used to prepare the annual consolidated financial statements for the year ended June 30, 2016, excluding the application of new standards and interpretations that are mandatory for periods beginning on or after July 1, 2016:

- amendments to IAS 1, “Presentation of financial statements – Disclosure initiative”;
- amendments to IAS 16 and IAS 38, “Clarification of acceptable methods of depreciation and amortization”;
- amendments to IFRS 11, “Accounting for acquisitions of interests in joint operations”;
- annual improvements, 2012-2014 cycle.

The new standards and interpretations that are not mandatory as of July 1, 2016 have not been applied in advance as of December 31, 2016. These are:

- IFRS 15, “Revenue from contracts with customers” and related amendments “Clarifications of the standard”;
- IFRS 9, “Financial instruments”;
- amendments to IAS 7, “Disclosure initiative”;
- amendments to IAS 12, “Deferred tax: recovery of underlying assets”;
- amendments to IFRS 2, “Clarification and evaluation of share-based payments”;
- annual improvements, 2014-2016 cycle;
- IFRS 16, “Rental contracts”;
- amendments to IFRS 10 and IAS 28, “Sales or contribution of assets between an investor and its associate/joint venture”;
- amendments to IFRS 4, “Application of IFRS 9 and IFRS 4”;
- IFRIC 22, “Advance payment on currency transactions”.

The Group is conducting an analysis of the impact and practical consequences of applying these standards.

The condensed six-month consolidated financial statements of the Group as of December 31, 2016, have been drawn up under the responsibility of the Management Board on the date of March 29, 2017.

Pursuant to the standard, the presented are limited to important notes.

NOTE 3 PRINCIPAL JUDGMENTS AND ESTIMATES FOR THE SIX-MONTH CLOSING

The financial statements were prepared on a going concern basis.

The preparation of the financial statements of the Group requires that the management have recourse to judgments, estimates, and assumptions having an impact on the recognized amounts in the financial statements, as assets, liabilities, income and expenses.

The principal assumptions and estimates that impacted the preparation of the financial statements of the six months concern the:

- recoverability of capitalized development costs;
- employee expenses relative to the application of IFRS 2.

NOTE 4 ADDITIONAL INFORMATION PERTAINING TO BALANCE SHEET ASSETS

Note 4.1 OTHER NON-CURRENT ASSETS

Intangible assets include development costs, the change in which is represented below:

(in thousands of euros)	NCV capitalized development cost as of 6/30/2016	Capitalization in the fiscal period	Exchange-rate differential	Depreciation in the fiscal period	**NCV capitalized development cost as of 12/31/2016**
PlanetArt	878	-	36	(298)	617
TOTAL	**878**	**-**	**36**	**(298)**	**617**

Note 4.2 OTHER CURRENT AND NON-CURRENT RECEIVABLES

The decrease in Other current receivables from €3,892 thousand at the end of June 2016 to €3,139 thousand at the end of December 2016 is mainly explained by:

- the payment of a portion of the deferred price (£450 thousand or €500 thousand) from the sale of Avanquest Software Publishing Ltd. The disposal of the subsidiary occurred on April 30 of the preceding fiscal year, this earn-out had been provisioned on June 30, 2016;
- the increase in the receivable for the deferred price of the disposal of Avanquest Software Publishing, as stipulated by the disposal contract. The amount of this deferred price was £304 thousand (€356 thousand). This earn-out had not been provisioned at June 30, 2016;
- the decrease in tax receivables linked to reimbursement of a VAT credit of €850 thousand to Avanquest SA.

Note 4.3 CASH AND CASH EQUIVALENTS

Cash (€22.5 million as of December 31, 2016 and €11.1 million as of June 30, 2016) is made up of bank accounts and cash investments, the net asset value of which is identical to the book value.

(in thousands of euros)	Cash as of 12/31/2016 (Euro)	Cash as of 12/31/2016 (Currency)
EUR	5,119	5,119
USD	11,062	11,661
GBP	5,816	4,980
RMB	326	2,385
CAD	138	196
TOTAL	**22,461**	

NOTE 5 ADDITIONAL INFORMATION PERTAINING TO BALANCE SHEET LIABILITIES

Note 5.1 SHARE CAPITAL

Capital

As of December 31, 2016, the share capital of the company Avanquest SA was made up of 375,318,555 shares with a par value of €0.10, all in the same category.

Since the close of the preceding fiscal year, the capital has not changed:

	Units	Amount (in euros)
As of June 30, 2016	**375,318,555**	**37,531,856**
AS OF DECEMBER 31, 2016	**375,318,555**	**37,531,856**

The principal objective of the Group in terms of management of the capital is to ensure the maintenance of sound ratios on the capital, in such a way as to facilitate its activity and development. The Group manages its capital structure with regard to developments in economic conditions and constraints linked to its indebtedness.

Implementation of a stock option plan

In accordance with the delegation that it had been granted by the General Shareholders' Meeting on November 30, 2015, the Management Board of Avanquest decided on November 25, 2016 to approve the implementation of an allocation plan for the subscription or purchase of shares. In total, 18,765,927 stock options were allocated, each giving the right to subscribe for a new share at the price of €0.10.

The stock options have been assessed at fair value in application of IFRS 2, "Share-based payments". The total charge of this stock option plan will be €1.3 million. Employee expenses of €47 thousand were recognized for this in the financial statements as of December 31, 2016.

Other securities giving access to capital

In the event that all rights attached to stock options and bonus shares become exercisable or are exercised, the share capital of Avanquest would be increased by the amount of €1,943,592.7.

The share capital would be increased from €37,531,855.5 to €39,475,448.7, or a percentage increase of 5.18%, spread out over time between 2019 and 2026. Note, however, that 100% of the stock options and bonus shares will only be exercised if certain growth objectives in the stock price or revenues are attained.

	2016/2017 (6 months)
Capital	375,318,555
Treasury shares	139,791
Average number of shares outstanding	375,178,764
Dilutive effect of stock options	18,765,927
Dilutive effect of bonus shares	670,000
Theoretical weighted average number of shares	**394,614,691**

Note 5.2 CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

During the six-month period, financial liabilities changed as follows:

	6/30/2016	Increases	Repayments	Change in foreign exchange	Other changes	12/31/2016
Bonds	-	1,684	-		(558)	1,126
Borrowings	1,180	474	(786)	63	-	931
Other financial liabilities	94	0	(50)	-	-	44
Bank account overdrafts	20	-	(9)	1	-	12
Accrued interest not yet due	24	-	5	-	-	29
TOTAL	**1,318**	**2,159**	**(840)**	**64**	**(558)**	**2,143**

Bonds

At December 7, 2016, Avanquest issued 1,249 bonds convertible to 12,490,000 existing ordinary shares (OCAE) of the Company, representing a total amount of €1,811,050. The costs related to this transaction totaled €127 thousand. The OCAE are convertible at any time starting from December 2, 2016. At December 31, 385 OCAE have been converted, thus reducing the debt by €558 thousand.

IAS 39 requires separate accounting of the debt component and the equity component for the convertible bonds. To the extent that the market rate is less than the OCAE rate (6%), all of the loan is recognized in liabilities until the conversion of the bonds.

The bond is set to mature on December 7, 2022.

Borrowings

Borrowings have dropped by €1,180 thousand to €931 thousand. In May 2015, Avanquest North America arranged a long-term loan for US$2 million at a variable rate of 5.25% with Cathay Bank. The financing utilized as of December 31, 2016 was US$982 thousand or €931 thousand (including a long-term portion of €667 thousand).

The maturity date for financial liabilities is as follows:

	Total	Less than one year	From one to five years	More than five years
Bonds	1,126	-	-	1,126
Borrowings	931	667	265	
Credit facilities	-	-	-	-
Other financial liabilities	44	44	-	-
Bank account overdrafts	12	12	-	-
Financial instruments – Liabilities	-	-	-	-
Accrued interest not yet due	29	29	-	-
TOTAL	**2,143**	**753**	**265**	**1,126**

Note 5.3 OTHER NON-CURRENT LIABILITIES

The other non-current liabilities originate from payment of retirement benefits for which a provision of €0.6 million was made in the balance sheet.

Note 5.4 TRADE PAYABLES

(in thousands of euros)	6/30/2016	Increase	12/31/2016
Trade payables	19,565	7,161	26,726
TOTAL	**19,565**	**7,161**	**26,726**

The change in this item is explained mainly by an increase of €6,992 thousand at Avanquest North America, due to the major growth in the revenue from its PlanetArt business, mainly in the month of December.

Note 5.5 OTHER LIABILITIES

Other liabilities include taxes and wages and salaries in an amount of €3.6 million, prepaid income for an amount of €1.5 million and miscellaneous liabilities for €0.7 million.

NOTE 6 NOTES ON THE INCOME STATEMENT

Note 6.1 INCOME STATEMENT AT EQUIVALENT SCOPE

To preserve the comparability of financial statements, the six-month period from July 1, 2015 to December 31, 2015 was restated for Avanquest Software Publishing Ltd due to the disposal of this subsidiary on April 30, 2016.

The income statement compared at equivalent scope, is presented in the following manner.

(in thousands of euros)	12/31/2016 (6 months)	12/31/2015 (6 months) Restated*	12/31/2015 (6 months) Published
Net revenues	**71,930**	**55,616**	**71,579**
Raw materials and purchases of goods	(22,255)	(18,755)	(29,691)
Other purchases and external expenses	(32,975)	(26,903)	(27,344)
Taxes, fees and similar payments	(86)	(62)	(62)
Employee expenses	(13,492)	(11,824)	(12,554)
Depreciation and provisions (net of reversals)	(819)	(2,993)	(3,293)
Other recurring operating income and expenses	(4,307)	(5,118)	(5,300)
Recurring operating income	**(2,004)**	**(10,039)**	**(6,666)**
Other operating income and expenses	(157)	(303)	(315)
Operating income	**(2,161)**	**(10,342)**	**(6,981)**
Financial income	**275**	**(192)**	**(340)**
Tax expense	(22)	(176)	(703)
Share of profit or loss of associates	(29)	(61)	(61)
NET INCOME FROM CONTINUING OPERATIONS	**(1,937)**	**(10,772)**	**(8,086)**

* *Excluding Avanquest Software Publishing Ltd*

Note 6.2 REVENUES

Revenue from the first half of the 2016-2017 fiscal year

Over the first half of the 2016-2017 fiscal year, the Group posted revenue of €71.9 million, as compared with €71.6 million for the first half of the 2015-2016 fiscal year, or €55.6 million, at equivalent scope, being an increase of 29%. This growth in revenue is sustained by the continuation of the major increase in the revenue of PlanetArt, the printing business of the Avanquest group, which jumped by 62% to €49.6 million.

Seasonality

The Group's activity has a very marked seasonality, which can be explained as follows:

- **PlanetArt:** a portion of PlanetArt's activity (*via* the websites) is very seasonal, since it corresponds to sales of greeting cards or personalized items which are often offered at the end of the year. Therefore, the months of November and December generally represent over 50% of the revenue for the fiscal year. The FreePrints and FreePrints Photobooks activity is fairly regular throughout the year;
- **myDevices:** there is no significant seasonality to be noted in this business;
- **Avanquest Software:** while online sales are spread throughout the year, the Retail business is fairly seasonal. Indeed, the few months preceding Christmas are normally the most significant for the fiscal year, principally in sales of games. However, following the disposal of the subsidiary Avanquest Software Publishing Ltd on April 30, 2016, and the decline in the Retail business at Avanquest SA, this seasonality has not had a significant impact on the financial statements at December 31, 2016.

Note 6.3 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses, which amount to a loss of -€157 thousand, consist mainly of the following:

- operating restructuring expenses of -€330 thousand;
- fees of the financial intermediaries -€135 thousand;
- earn-out of Avanquest Software Publishing Ltd pour €355 thousand.

Note 6.4 ANALYSIS OF THE FINANCIAL RESULT

The financial result shows income of €275 thousand, owing primarily to the following:

- a net exchange rate gain of €303 thousand;
- net borrowing costs for -€36 thousand.

NOTE 7 NOTES ON THE STATEMENT OF CASH FLOW

Note 7.1 ACQUISITIONS OF INTANGIBLE ASSETS

No development costs were capitalized during the six-month period.

Note 7.2 SALE/SHARE BUYBACK

On December 14, 2016, Avanquest sold 14,000,000 treasury shares for an amount of €2.03 million in an off-balance sheet block transaction. The costs related to this transaction totaled €142 thousand.

Moreover, the suspension of the liquidity agreement occurred on November 29, generating a positive cash flow of €42 thousand.

Note 7.3 PROCEEDS FROM BORROWINGS

On December 8, the Company issued 1,249 bonds convertible to 12,490,000 existing ordinary shares (OCAE), representing a total amount of €1,811,050. The costs related to this transaction totaled €127 thousand.

The subsidiary Avanquest North America drew down an amount of €474 thousand (US$500 thousand) during the six-month period. This amount was paid back over the period.

NOTE 8 NOTES ON OFF-BALANCE SHEET COMMITMENTS

Note 8.1 EARN-OUT CLAUSES ON ACQUISITIONS AND EQUITY INTERESTS

The potential earn-out from the sale of Avanquest Software Publishing Ltd, calculated on a gross profit basis, was not factored into the calculation of the sales result (capital loss) and will be recorded as income as it occurs.

For other information concerning off-balance sheet liabilities, please see paragraph 20.2.1.5.8 of the June 30, 2016 Registration Document.

NOTE 9 NOTES ON RISKS

The risks, as described in the June 30, 2016 Registration Document, remain unchanged.

NOTE 10 OTHER INFORMATION

Note 10.1 SECTOR INFORMATION

In application of IFRS 8, "Operating segments", the information presented is based on internal reporting, used by the Group's Management for the evaluation of the performance of the various sectors.

The Group's Management monitors its activity according to three operating sectors below:

- **PlanetArt** comprising all digital printing operations, both through specialized websites or through specific mobile applications, such as FreePrints – the most inexpensive and simplest way in the world to print photos from a smart phone. The FreePrints offering expanded to the printing of photo albums in early 2016 with the launch of FreePrints Photobooks;
- **myDevices** is composed of activities linked to the Internet of Objects (IoT). myDevices is a global platform for IoT management, enabling major corporations, regardless of business sector, to quickly develop and roll out IoT solutions for their customers, and deployment by developers of Cayenne its development tool. Cayenne is an intuitive and dynamic tool for the creation of IoT projects. The historical activities in the area of mobility are also included in myDevices;
- **Avanquest Software** corresponds to the Group's activity in the publishing and distribution of software, which is progressively orienting its activities towards the monetization of Internet and mobile traffic.

Recurring operating income amounts to a loss of €2.0 million. The Group's internal reporting is based upon adjusted EBITDA of the various divisions. This indicator corresponds to the recurring operating income before impact of depreciation and provision (-€0.4 million as of December 31, 2016 versus -€3.3 million as of December 31, 2015), capitalized development cost (€0 million as of December 31, 2016 versus €0,7 million as of December 31, 2015) as well as IFRS restatements (€0 million as of December 31, 2016 versus -€0.2 million as of December 31, 2015).

On these bases, the sector information can be analyzed in the following manner for the first half, from July to December 2016.

(in millions of euros)	PlanetArt	myDevices	Avanquest Software	Total Avanquest
External revenue	**49.6**	**1.3**	**21.1**	**71.9**
Adjusted EBITDA*	**0.4**	**(2.4)**	**0.5**	**(1.6)**

* *Including corporate expenses.*

NOTE 11 EVENTS TAKING PLACE AFTER THE CLOSING

Semtech invests in the myDevices subsidiary

On January 5, the American semi-conductor supplier Semtech Corporation invested in Avanquest's myDevices subsidiary, a subsidiary that had been created in November 2016 in the United States. Semtech is a large American electronics company specializing in the supply of semi-conductors. It is also owner of the low-speed, low consumption, long-range communication technology LoRa® RF Technology for the Internet of Things.

This agreement resulted in Semtech's acquisition of a minority interest in myDevices. The fully-diluted post-money valuation of myDevices totals US$24.3 million, or €23.2 million. Semtech's investment was made as part of a financing round that could increase to US$10 million before being finalized by end of June 2017 for a fully-diluted post-money valuation of US$31.3 million (€29.8 million) , assuming the valuation is unchanged throughout this financing round.

Bonds

Since the closing, an additional 644 bonds were converted, bringing the number of bonds yet to be converted to 220.

2.6 Statutory Auditors, report on the six-month financial information

To the Shareholders,

In performance of the mission that was entrusted to us by your General Shareholders' Meeting, and in application of Article L. 451-1-2 III of the French Monetary and Financial Code, we have proceeded with the following:

- the limited review of the summarized six-month consolidated financial statements of the company Avanquest, pertaining to the period from July 1, 2016 to December 31, 2016, as attached to this report;
- the verification of the information given in the six-month activity report.

These summarized six-month consolidated financial statements were drawn up under the responsibility of the Management Board. It is our responsibility, on the basis of our limited review, to express our conclusion on those statements

1. CONCLUSION ON THE FINANCIAL STATEMENTS

We carried out our limited review in accordance with the professional standards applicable in France. A limited review consists primarily of discussions with the members of Management in charge of the accounting and financial aspects, and implementing analytical procedures. This work is less extensive than that required for an audit performed according to the applicable professional standards practiced in France. Therefore, the assurance that the statements, taken as a whole, do not contain any significant anomalies, since they were obtained in the context of a limited review, is of moderate assurance and is not as firm as the assurance that would be obtained in the framework of an audit.

On the basis of our limited review, we did not find any significant anomalies that would bring into question the compliance of the summarized six-month consolidated financial statements with IAS 34, the IFRS reference standard as adopted by the European Union pertaining to interim financial information.

Without calling into question the opinion expressed above, we draw your attention to the correction of the error relating to the presentation of the statement of cash flow at June 31, 2015, following the consolidated statement of cash flow in section 2.3 of the notes to the financial statements.

2. SPECIFIC VERIFICATION

We also verified the data provided in the six-month activity report commenting upon the summarized six-month consolidated financial statements, which our limited review concerned.

We have no observations to make on their truthfulness and their consistency with the summarized six-month consolidated financial statements.

Paris and Paris-La Défense, on March 29, 2017

The Statutory Auditors

APLITEC	**ERNST & YOUNG et Autres**
Stéphane Lambert	Franck Sebag

3. SIX-MONTH ACTIVITY REPORT AS OF DECEMBER 31, 2016

Significant events of the six-month period

CREATION OF THE SUBSIDIARY MYDEVICES INC.

In November 2016, the Avanquest North America subsidiary myDevices was created. After the close of the half-year, on January 5, the American semi-conductor supplier Semtech Corporation invested in this subsidiary. Semtech is a large American electronics company specializing in the supply of semi-conductors, and owner of the low-speed, low consumption, long-range communication technology LoRa® RF Technology for the Internet of Things.

This agreement resulted in Semtech's acquisition of a minority interest in myDevices. The fully-diluted post-money valuation of myDevices totals US$24.3 million, or €23.2 million. Semtech's investment was made as part of a financing round that could increase to US$10 million before being finalized by end of June 2017 for a fully-diluted post-money valuation of US$31.3 million (€29.8 million), assuming the valuation is unchanged throughout financing round.

ISSUE OF CONVERTIBLE BONDS

At December 7, 2016, Avanquest issued 1,249 bonds convertible to 12,490,000 existing ordinary shares (OCAE) of the Company, representing a total amount of €1,811,050. At December 31, 385 OCAEs have been converted, thus reducing the debt by €558 thousand. The bond is due to mature on December 7, 2022.

A large portion of the amount of this transaction will be allocated to FreePrints. This transaction is not dilutive since the Company reserved a portion of its treasury shares for this purpose.

SALE OF A BLOCK OF SHARES

On December 14, 2016, Avanquest announced the sale of 14,000,000 treasury shares for an amount of €2.03 million. As with the issue of convertible bonds, this transaction aims to strengthen its financial resources available to stimulate high-growth and high-potential activities, in-line with its industrial investments. This sale results in a gain of slightly more than €500 thousand.

Through this sale and the issue of convertible bonds, the Company has now disposed of almost all of its treasury shares at favorable market conditions.

Revenues

Over the first six months of the 2016-2017 fiscal year, the Group posted revenue of €71.9 million, compared with €55.6 million for the first six months of the 2015-2016 fiscal year, at equivalent scope (excluding Avanquest Software Publishing Ltd, a business that was sold during fiscal year 2016), for an increase of 29%.

This growth in revenue is sustained by the continuation of the major increase in revenue at **PlanetArt**, the Avanquest group printing business, which jumped by 56% to €49.6 million.

After the worldwide success of FreePrints – the most widely used application for printing photos from smart phones – the Group continued its strategy to monetize its mobile customer base with the launch of a second application at the beginning of the year, FreePrints Photobooks, the simplest and most inexpensive solution on the market for printing photo albums from smart phones.

myDevices, the business for management of connected objects, continues to focus its efforts on the strong growth of its community of developers who use Cayenne, a dynamic and intuitive tool for creating IoT projects (Internet of Things). In less than one year, by the end of December, Cayenne had exceeded 120,000 developers and continues its growth at a sustained pace with more than 190,000 developers at present. The drop in revenue compared with the first six months of fiscal year 2015-2016 is explained by the suspension of sales of embedded software.

Semtech Corporation's investment in the capital of myDevices, as announced on January 5, 2017, allows myDevices to pursue the objective of accelerating the deployment of Cayenne throughout the world so that it can eventually become the benchmark development tool for the Internet of Things.

At the end of December, the **Avanquest Software** division recorded a 4% decline in its business to €21.1 million at equivalent scope.

REVENUE FROM THE FIRST HALF OF THE 2016-2017 FISCAL YEAR

(in millions of euros)	H1 2016-2017 July to December	H1 2015-2016 July to December	Δ
Avanquest Software	21.1	21.8	-4%
PlanetArt	49.6	31.8	56%
myDevices	1.3	2.0	-36%
REVENUE AT CONSTANT SCOPE	**71.9**	**55.6**	**29%**
Other*		16.0	-100%
PUBLISHED REVENUE	**71.9**	**71.6**	**0.5%**

* *Avanquest Software Publishing Ltd.*

Profit/Loss

The Group's internal reporting is based upon adjusted EBITDA of the various divisions, which corresponds to the recurring operating income before the impact of depreciation and provisions, and of the capitalized development costs.

Adjusted EBITDA is a negative €1.6 million in the first six months of the 2016-2017 fiscal year, compared with a loss of €7 million in the first six months of the 2015-2016 fiscal year, at equivalent scope (excluding Avanquest Software Publishing Ltd).

The breakdown of adjusted EBITDA by division can be found below:

(in millions of euros)	PlanetArt	myDevices	Avanquest Software	Total Avanquest
External revenue	49.6	1.3	21.1	71.9
Adjusted EBITDA*	**0.4**	**(2.4)**	**0.5**	**(1.6)**

* *Including corporate expenses.*

PlanetArt showed positive, versus -€5.3 million one year earlier, adjusted EBITDA for the first time since it was launched, the result of investments made in recent years to increase and monetize its customer base. The Group thus continued it strategy to monetize its customer base, with the launch of a second application at the beginning of the year, FreePrints Photobooks, the simplest and most inexpensive solution on the market for printing photo albums from smart phones. Photobooks, whose gross margin is significantly higher than that of FreePrints, with continuously growing sales, now represents a significant portion of PlanetArt's revenue, and this is almost without any marketing expense, as most of the customers ordering Photobooks come from the FreePrints customer base, illustrating the Group's ability to profit from the customer base developed through FreePrints.

Avanquest Software remains profitable with adjusted EBITDA at €0.5 million (compared with €1.5 million in the first six months of the 2015-2016 fiscal year, including the results of the subsidiary Avanquest Software Publishing Ltd, sold in April 2016, and -€0.4 million restated result of this subsidiary), in spite of a slight decrease in its revenue.

myDevices posted adjusted EBITDA down at -€2.4 million (-€1.3 million in the first six months of the 2015-2016 fiscal year). These losses result mostly from investments made to grow the community of developers using Cayenne.

Recurring operating income amounted to a loss of €2.0 million. The difference between adjusted EBITDA and the recurring operating income is composed of €0.4 million in depreciation and amortization. No development cost was capitalized.

The amount of other operating income and expenses totaled an expense of €157 thousand, compared with an expense of €315 thousand in the first six months of the 2015-2016 fiscal year. This amount includes an earn-out for the disposal of the subsidiary Avanquest Software Publishing Ltd for €355 thousand in April 2016.

Net income was a positive €275 thousand, the tax expense totaled €22 thousand, and net income from continuing operations amounted to a loss of €1,937 thousand.

Debt and cash

Indebtedness totaled €2,143 thousand (including an amount of €1,126 thousand in bond borrowings), compared with €1,318 thousand at the end of June 2016.

Net cash was €22,449 thousand, compared with €11,066 thousand as of June 30, 2016. This amount includes the cash generated by the sale of 14,000,000 treasury shares for an amount €2.03 million, and by the issue of 1,249 convertible bonds for a total amount of €1,811,050. The costs related to these transactions totaled €269 thousand.

Pursuit of the strategy

The Group intends to continue to develop its strategy over its various divisions, relying on the success already achieved in the first half.

The growth of PlanetArt should continue to be sustained by major marketing investment in order to strengthen the existing customer base. This division will focus its efforts on the growth of its business but also on the improvement of its profitability.

myDevices will continue to focus its efforts on the very strong growth of its community of developers using Cayenne, a dynamic and intuitive tool for the creation of IoT (Internet of Things) projects, so that it will become the benchmark tool in the domain. The expected entry of new investors will strengthen the financial capacities of this division.

Avanquest Software will continue its profitable development, both while concentrating on its higher value-added businesses, and in developing its traffic in order to grow the number of customers. Furthermore, the Group remains agile in regards to considering the sale of certain businesses considered to be outside the new strategic focuses.

Principal risks and uncertainties

The nature of the risks and uncertainties has not significantly changed in comparison with that described in the Registration Document at June 30, 2016.

Principal transactions with related parties

The significant transactions with related parties consist of executive compensation. As of the first half of the 2016-2017 fiscal year, there was no significant change in the nature of the transactions with related parties, in comparison with the preceding fiscal year.

Designed & published by LABRADOR +33 (0)1 53 06 30 80

Avanquest®

Immeuble Vision La Défense
89-91, boulevard National
92257 La Garenne-Colombes Cedex – France

T +33 1 41 27 19 70
F +33 1 41 27 19 71
www.avanquest-group.com

French *société anonyme* (limited-liability company)
with share capital of €37,531,855.50
Nanterre Trade and Companies Register No. B 329 764 625
French NAF Industry Classification 5829C
Intra-community VAT No. FR 05 329 764 625