



# Half-year financial report

## As of July 31, 2019

---

French limited company with a share capital of EUR 18,053,676  
Head quarter office: 100/102 Avenue de Suffren, 75015 Paris  
Paris Trade and Company Register (RCS) number 381 080 225

<b>1 MANAGEMENT REPORT .....</b>	<b>3</b>
1.1. Overall presentation .....	3
1.2. Revenues and consolidated financial statements .....	4
1.3. Cash-flows .....	6
1.4. Balance sheet .....	7
1.5. Significant events of the period .....	7
1.6. Outlook .....	7
1.7. Risk factors and opportunities .....	8
1.8. Transactions with related parties .....	8
1.9. Information on shareholding .....	9
<b>2 FINANCIAL STATEMENTS .....</b>	<b>10</b>
2.1. Consolidated income statement .....	10
2.2. Balance sheet .....	11
2.3. Consolidated statement of changes in equity .....	12
2.4. Consolidated statement of cash flows .....	13
2.5. Notes to the consolidated financial statements .....	14
Note 1. Accounting principles .....	14
Note 2. Significant events for the six-month period .....	16
Note 3. Scope of consolidation .....	16
Note 4. Operating data .....	18
Note 5. Intangible assets .....	20
Note 6. Financing .....	21
Note 7. Tax .....	22
Note 8. Subsequent events .....	22
<b>3 STATUTORY AUDITORS' REVIEW REPORT ON THE 2019 HALF YEAR FINANCIAL INFORMATION.....</b>	<b>23</b>
<b>4 DECLARATIONS BY THE PERSON RESPONSIBLE OF THE HALF YEAR FINANCIAL REPORT .....</b>	<b>25</b>

# 1 MANAGEMENT REPORT

## Preamble:

The financial information below presents the activity and the financial statements of ESI Group, a French limited and listed company, registered in France and governed by the provisions of French law. The Group's headquarters are located 100-102, avenue de Suffren, 75015 Paris, France. The company is listed in compartment B of Euronext Paris, under the ISIN code: FR 0004110310 and its subsidiaries, together referred to as "**ESI Group**" or "**the Group**".

## 1.1. Overall presentation

ESI Group is a leading innovator in Virtual Prototyping software and services. Specialist in material physics, ESI has developed a unique proficiency in helping industrial manufacturers replace physical prototypes by virtual prototypes, allowing them to virtually manufacture, assemble, test and pre-certify their future products. Coupled with the latest technologies, Virtual Prototyping is now anchored in the wider concept of the Product Performance Lifecycle™, which addresses the operational performance of a product during its lifecycle, from launch to disposal. The creation of a Hybrid Twin™, leveraging simulation, physics and data analytics, enables manufacturers to deliver smarter and connected products, to predict product performance and to anticipate maintenance needs.

ESI is a French company listed in compartment B of NYSE Euronext Paris. Founded in 1973 and present in more than 40 countries, and addressing every major industrial sector, ESI Group employs about 1200 high-level specialists around the world.

## 1.2. Revenues and consolidated financial statements

### Key figures

Half year closed on July 31<sup>st</sup>, 2019

In € millions	H1-FY 19	H1-FY 18	Δ at current exchange rates	Δ at constant exchange rates
<b>Revenues</b>	<b>54.8</b>	<b>53.2</b>	<b>3.0%</b>	<b>0.4%</b>
Licenses	40.9	39.4	3.7%	0.8%
Services	14.0	13.8	0.9%	(0.7%)
<b>Gross margin</b>	<b>36.9</b>	<b>35.2</b>	<b>4.8%</b>	<b>1.7%</b>
% Revenue	67.4%	66.2%		
<b>EBITDA</b> (before IFRS 16 <sup>1</sup> )	<b>(6.5)</b>	<b>(7.2)</b>	<b>9.2%</b>	<b>3.4%</b>
% Revenue	(11.9%)	(13.4%)		
<b>Operating Income</b> (before IFRS 16 <sup>1</sup> )	<b>(8.4)</b>	<b>(9.3)</b>	<b>9.8%</b>	<b>5.3%</b>
% Revenue	(15.3%)	17.6%		
<b>IFRS 16 Impacts</b>				
EBITDA	2.8	n/a		
Current Operating Profit	0.1	n/a		
<b>Net Results</b>	<b>(7.1)</b>	<b>(7.9)</b>	<b>9.4%</b>	<b>6.2%</b>
% Revenue	(13.2%)	(14.8%)		
<b>Available cash</b>	<b>15.5</b>	<b>12.9</b>	<b>20.5%</b>	

These figures were approved by the Board of Directors' meeting held on Monday, September 18<sup>th</sup>, 2019.

NB: Due to seasonality of License revenue, ESI Group recognizes a major part of its annual revenue during 4<sup>th</sup> quarter of the year. Exceptionally, 11-month financial year ending on 12/31/2019, following the approval of the AGM meeting on July 18, 2019; H1 reported here covers February to July of our traditional 12-month fiscal year.

### Revenue by quarter

In € millions	Q1 2019 ended April 30				Q2 2019 ended July 31			
	Q1 2018	% chg.	% chg. (cer*)	Q2 2018	% chg.	% chg. (cer*)		
<b>Licenses</b>	20.1	19.0	5.6%	2.1%	20.7	20.4	1.9%	(0.4%)
<b>Services</b>	6.5	7.2	(9.9%)	(11.6%)	7.4	6.6	12.7%	11.1%
<b>Total</b>	<b>26.6</b>	<b>26.2</b>	<b>1.4%</b>	<b>(1.7%)</b>	<b>28.2</b>	<b>27.0</b>	<b>4.5%</b>	<b>2.4%</b>

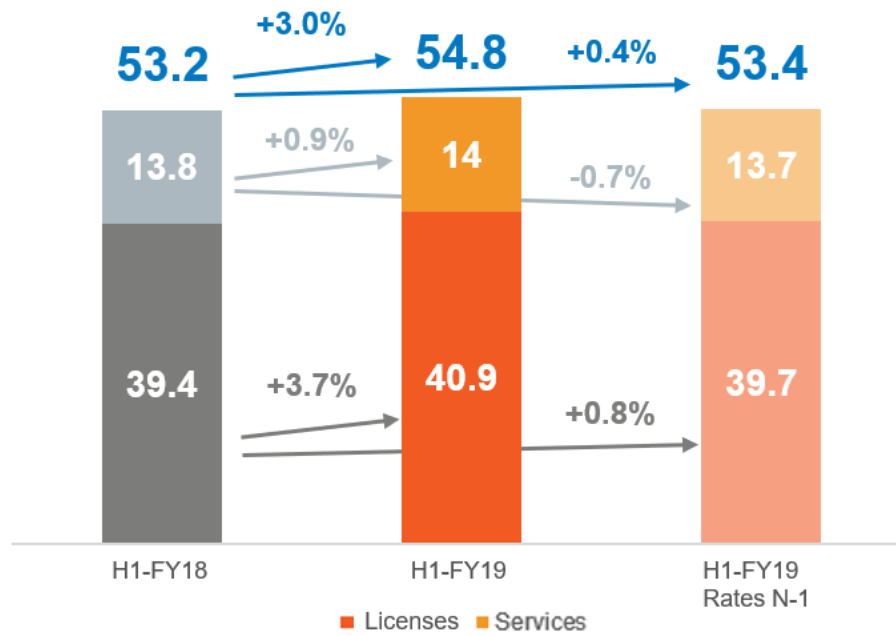
\* cer: constant exchange rates

<sup>1</sup> New IFRS 16 - Leases, applicable to financial years commencing on or after January 1, 2019

## First half 2019 revenues

**H1 total revenues** - First-half 2019 sales came in at €54.8 million, up 3.0%, 0.4% at constant exchange rates. There was a positive currency impact totaling €1.4 million for the period due to the depreciations of the US dollar and the Japanese yen.

The product-mix remained stable: Licenses contributed 74.5% of sales, compared with 74% in the prior period.



**H1 Licenses** - Revenue from Licenses rose 3.7% to €40.9 million, reflecting a recurring and solid business which grew by 0.8% at constant exchange rates.

**H1 Services** – Services revenues were stable at €14.0 million (up 0.9% and -0.7% at constant currency).

Quarterly sales were up in comparison with the same periods in 2018, with higher growth in license sales in Q1 and in services in Q2, reinforcing the fact that a longer-term perspective should be taken when reviewing our business model.

**H1 Geographical mix** - ESI's value proposition and ability to operate across the globe is a major asset in a market where key accounts are increasingly global. Six-month revenue picked up across all the geographies: the Americas (+ 9.4%), Asia (+ 2.6%) and EMEA (+ 0.9%)

## First half 2019 results

### Delivering growth and higher profitability

The focus plan, conducted by Cristel de Rouvray, Chief Executive Officer since February 2019, aims to increase value creation by growing sales and expanding margins. Costs grew slower than half-year revenue.

Now that we have integrated the additional costs linked to the investments, we made to spur our transformation, we see an expected uptick in our profitability. At this stage, the Group considers having the right resources and we are now focused on tuning the allocation of these resources to drive growth.

### Profitability indicators impacted by investments

At €36.9 million (up from €35.2 million) the gross margin at July 31, 2019 improved to 67.4% of sales (vs. 66.2%). EBITDA (before IFRS 16) was a negative €6.5 million, compared to a negative €7.2 million in H1 2018. The current operating income (before IFRS 16) improved to -€8.4 million (from -€9.3 million). Financial income amounted to €1.0 million, a slight decrease compared to €0.7 million in the first half of 2018, and the net income came out at -€7.1 million (vs. -€7.9 million).

New IFRS 16 applies to financial years commencing on or after January 1, 2019. It specifies how to recognize and measure lease assets and liabilities (property, plant and equipment – real estate and vehicles – and lease liabilities). The lease expense is now broken down between amortization and depreciation and the interest on the debt. IFRS16 has an impact of +€2.8 million on EBITDA (-€3.7 million after IFRS16) and +€0.1 million on operating income (-€8.3 million after IFRS16). There is an impact on the group's net income of -€0.04 million.

## 1.3. Cash-flows

Cash position amounted to €15.5 million at July 31, 2019, compared with €12.9 million at July 31, 2018 and €18.1 million at January 31, 2019.

Evolution of cash position between January 31, 2019 and July 31, 2019 is mainly due to:

- A negative net cash margin of -€4.7 million due to EBITDA seasonality compared to -€9.6 million in 2018 first half;
- A change in WCR of €6.1m in relation to customer receipts for the period. Trade receivables being at their highest level at the end of the year;
- A stable level of capital expenditures of €2.0 million compared to €1.8 million in 2018 first half;
- A revolving credit reimbursement of € 2 million during the semester.

## 1.4. Balance sheet

Net debt stood at €25.3 million at 31 July 2019 compared with €33.2 million at the end of July 2018, mainly due to the decrease in the level of debt linked to the Factoring R&D tax credit "CIR"; gearing (debt-to-equity) thus stood at 25.6% compared with 35.6% at the end of July 2018.

## 1.5. Significant events of the period

Cristel de Rouvray were appointed Chief Executive Officer, effective the 1<sup>st</sup> February 2019. Cristel de Rouvray succeeded Alain de Rouvray, founder of the company who remains Chairman. Cristel de Rouvray has a long track record with ESI Group, acquired thanks to her commitment as Board member, since 1999. Appointed Board Leader, she served as Chairwoman of the Compensation, Nomination & Governance Committee, as project leader for succession planning, and as head of an operational committee for critical Human Resources related topics. She has been a key driver in building and supporting ESI's talent development and management decisions. Through this experience, Cristel has gained both a deep understanding of ESI 's expertise, market, people and culture, and has successfully established a productive working relationship with the industrial ecosystem, the Board, the Group Executive Committee and key managers.

Since the beginning of February 2019, Cristel de Rouvray has been leading a short- and medium-term focus plan based on two fundamental perspectives:

1. Operational excellence to:

- optimize operational performance by clarifying the Group's organization;
- measure, drive and control performance;
- improve internal and external transparency with the implementation of best-in-class management tools

2. Focus on increasing commercial efficiency and maximizing the return on investment on innovation to:

- enhance and streamline acquired technologies (M&A), and complete their integration into the Group's solutions;
- align S&M and R&D resources with a multichannel marketing approach (Engineering, Manufacturing, In-Service) and industry sector;
- focus business development initiatives on our key accounts, such as in the Transportation, Aeronautics and Energy sectors which constitute 75% of booking in 2018.

## 1.6. Outlook

ESI Group business is highly recurrent, with a substantial proportion of the revenue generated by licensing repeatable from year to year. This builds long term relationships which are reinforced by complementary services.

The solidity of the model is reflected in ESI's business with large OEMs, who are now at an advanced stage of their transformation towards eliminating physical tests and prototypes. Their needs are aligned with ESI's value proposition, and they have considerable investment capacity. This alignment is especially evident in the automotive industry, where we note the continued success of our leading solution for crashworthiness and passenger safety and comfort, both designed to address the increasing complexity resulting from changes in passenger expectations and regulations.

Major customers are less visible in ESI's first half revenues than in the full year. Accordingly, growth in the first half was also carried by other customers adopting a significant part of ESI Group offer. This target group has the potential to develop into key strategic accounts, giving a further boost to the highly recurrent nature of the revenue.

The strategic growth initiatives targeting the full range of customers include:

- solutions acknowledged as among the best on the market, backed by solid customer references. The successful IC.IDO 'Human Centric' virtual reality solution (to address the safety, efficiency and effectiveness of assembly processes) falls into this category. Recently, Safran Nacelles announced during the Paris Air Show that the solution had helped deliver 15% savings on their tooling budget, earning a return on investment in less than one year.
- our differentiating Hybrid Twin™ concept to guarantee the asset performance throughout its entire life. ESI Group is working with a major aeronautics company to help it design a diagnostic tool for the remaining service life of its aircraft, before planning maintenance operations.

These efforts fit into a longer-term approach based on innovation management to deliver continuous value for customers, all made possible by the combination of experience and commitment of the technical and managerial talent.

The annual general meeting on July 18, 2019 voted to approve a resolution to close the company's fiscal year on December 31 of each year. Accordingly, fiscal 2019 will run exceptionally for 11 months. To ensure the comparability of financial information, pro-forma financial statements will be published as of the announcement of 2019 revenue to facilitate projections of future performance.

## 1.7. Risk factors and opportunities

A detailed analysis of the different risk factors can be found in the 2018 Registration Document (registered by the AMF on May 23, 2019) in the section 1.6 "Risk factors and opportunities".

The Group has not identified other risk factors over the period.

## 1.8. Transactions with related parties

Intra-Group transactions consist mainly of royalties paid by the Group's subsidiaries. These royalties are proportional to Licensing revenue and based on the practices observed between software publishers and distributors within the sector covered by ESI Group.

The nature of the transactions with related parties has not changed materially during the first half of 2019, as compared to January 31, 2019.



## 1.9. Information on shareholding

Breakdown of share capital and voting rights as of July 31, 2019:

	Number of shares	% of capital	Number of voting rights	% of voting rights
de Rouvray Family	1,824,385	30.32%	3,648,467	46.22%
Succession Dubois Jacques	380,619	6.32%	761,238	9.64%
<b>FOUNDING GROUP SUB-TOTAL (registered shares)</b>	<b>2,205,004</b>	<b>36.64%</b>	<b>4,409,705</b>	<b>55.86%</b>
Chaillou Vincent	21,197	0.35%	34,794	0.44%
des Isnards Charles-Helen	3,951	0.07%	7,352	0.09%
d'Hotelans Éric	1,589	0.03%	3,178	0.04%
Jacq Véronique	157	0.00%	158	0.00%
Ramanathan Rajani	1	0.00%	2	0.00%
de Balmann Yves	1	0.00%	2	0.00%
<b>MEMBERS OF THE BOARD OF DIRECTORS (EXCL. FOUNDERS) (registered shares)</b>	<b>26,896</b>	<b>0.45%</b>	<b>45,486</b>	<b>0.58%</b>
Public (registered shares)	110,961	1.84%	131,652	1.67%
Public (bearer shares)	3,297,340	54.79%	3,307,092	41.89%
<b>PUBLIC SUB-TOTAL</b>	<b>3,408,301</b>	<b>56.64%</b>	<b>3,438,744</b>	<b>43.56%</b>
Treasury shares	377,691	6.28%	0	0.00%
<b>TOTAL</b>	<b>6,017,892</b>	<b>100.00%</b>	<b>7,893,935</b>	<b>100.00%</b>

### Declaration of the share's movements leading to the crossing of the threshold:

At the Annual General Meeting of 18 July 2019, in addition to the legal obligation, the obligation to disclose the crossing of a threshold at 2.5% or a multiple of that fraction was voted, to establish a closer relationship with the company's shareholders.

No crossing of the threshold has been declared over the period.

No Corporate Officer declared to have crossed the threshold to the upward nor downward direction over the period.

### Transactions following the half year closing:

Nothing to report.

## 2 FINANCIAL STATEMENTS

### 2.1. Consolidated income statement

Half year closed on July 31, 2019

<i>(In € thousands)</i>	Note	H1 2019	H1 2018	January 31, 2019
Licenses and maintenance		40,854	39,400	109,836
Consulting		13,585	13,387	28,793
Other		369	444	784
<b>REVENUE</b>	4.1	<b>54,809</b>	<b>53,231</b>	<b>139,413</b>
Cost of sales		(17,886)	(18,017)	(37,907)
Research and development costs	5.2	(16,078)	(15,025)	(31,718)
Selling and marketing expenses		(19,539)	(20,191)	(43,042)
General and administrative costs		(9,650)	(9,298)	(19,970)
<b>CURRENT OPERATING RESULT <sup>(1)</sup></b>		<b>(8,345)</b>	<b>(9,300)</b>	<b>6,776</b>
Other operating income and expenses <sup>(1)</sup>	3.2	28	(12)	233
<b>INCOME FROM OPERATIONS</b>		<b>(8,317)</b>	<b>(9,312)</b>	<b>7,010</b>
<b>FINANCIAL RESULT</b>	6.2	<b>(961)</b>	<b>(710)</b>	<b>(1,277)</b>
Share of profit of associates		(264)	(550)	106
<b>INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS</b>		<b>(9,542)</b>	<b>(10,572)</b>	<b>5,839</b>
Provision for income tax	7.1	2,501	2,794	(2,505)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>		<b>(7,041)</b>	<b>(7,778)</b>	<b>3,334</b>
Minority interests		103	109	0
<b>NET INCOME (GROUP SHARE)</b>		<b>(7,144)</b>	<b>(7,888)</b>	<b>3,334</b>
Earnings per share (in euros)		(1.27)	(1.40)	0.59
Diluted earnings per share (in euros)		(1.26)	(1.39)	0.59

<sup>(1)</sup> Reclassification, over the two financial years presented, of the amortization of intangibles assets acquired in business combinations from Other operating income and expenses to Current Operating Result

#### Statement of comprehensive income

<i>(In € thousands)</i>	H1 2019	H1 2018	January 31, 2019
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>(7,041)</b>	<b>(7,778)</b>	<b>3,334</b>
<b>OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME</b>			
Change in the fair value of hedging instruments	(16)	13	15
Translation differences	737	125	(534)
<b>OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME</b>			
Actuarial gains and losses	4	-	(201)
Income and expenses recorded directly in equity	725	138	(720)
<b>COMPREHENSIVE INCOME</b>	<b>(6,316)</b>	<b>(7,641)</b>	<b>2,614</b>
Attributable to Group equity holders	(6,439)	(7,769)	2,599
Attributable to minority interests	123	128	15

The notes are an integral part of the consolidated financial statements.

## 2.2. Balance sheet

Half year closed on July 31, 2019

(In € thousands)	Note	H1 2019	H1 2018	January 31, 2019
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>		<b>152,224</b>	<b>133,630</b>	<b>129,389</b>
Goodwill	3.1	41,550	41,301	41,404
Intangible assets	5.1	61,708	61,072	61,811
Property, plant and equipment		5,889	5,900	6,101
Rights-of-use assets	1.2	22,077	-	-
Shares in affiliated companies		823	409	1,083
Deferred tax assets	7.2	14,603	14,801	10,920
Other non-current assets		5,570	10,147	8,070
Cash-flow hedging instruments		3	0	0
<b>CURRENT ASSETS</b>		<b>72,818</b>	<b>68,704</b>	<b>101,186</b>
Trade receivables		38,729	38,337	65,131
Other current receivables		14,663	14,082	15,348
Prepaid expenses		3,939	3,428	2,620
Cash and cash equivalents		15,487	12,858	18,087
<b>TOTAL ASSETS</b>		<b>225,042</b>	<b>202,334</b>	<b>230,575</b>
<b>LIABILITIES</b>				
<b>EQUITY</b>		<b>99,555</b>	<b>94,503</b>	<b>105,633</b>
<b>Equity (Group share)</b>		<b>98,661</b>	<b>93,620</b>	<b>104,863</b>
Capital		18,053	18,052	18,054
Additional paid in capital		25,818	25,803	25,818
Reserves and retained earnings		61,422	57,196	57,862
Net income (loss)		(7,144)	(7,888)	3,334
Translation differences		512	456	(205)
<b>Minority interests</b>		<b>894</b>	<b>883</b>	<b>771</b>
<b>NON-CURRENT LIABILITIES</b>		<b>69,883</b>	<b>48,418</b>	<b>51,370</b>
Long-term share of financial debt	6.1	33,157	33,842	36,255
Non-current finance lease obligation <sup>(1)</sup>		21,821	-	-
Provision for employee benefits		10,315	9,420	9,979
Deferred tax liabilities	7.2	3,763	3,737	3,738
Cash-flow hedging instruments		55	50	13
Other long-term debt		772	1,370	1,385
<b>CURRENT LIABILITIES</b>		<b>55,605</b>	<b>59,413</b>	<b>73,572</b>
Short-term share of financial debt	6.1	7,670	12,187	8,801
Current finance lease obligation <sup>(1)</sup>		324	-	-
Trade payables		6,740	9,068	8,848
Accrued compensation; taxes and others short-term liabilities		17,771	17,680	30,560
Provisions for contingencies, risks and disputes		701	578	762
Deferred income		22,400	19,900	24,601
<b>TOTAL LIABILITIES</b>		<b>225,042</b>	<b>202,334</b>	<b>230,575</b>

<sup>(1)</sup> ESI Group has applied IFRS 16 for the first time as of February 1<sup>st</sup>, 2019. In accordance with the method adopted, the comparative financial information has not been restated.

The notes are an integral part of the consolidated financial statements.

## 2.3. Consolidated statement of changes in equity

<i>(In € thousands except number of shares)</i>	Number of shares	Share capital	Additional paid in capital	Net income, reserves and retained earnings	Translation differences	Equity attributa- ble to parent company owners	Minority interests	Total Equity
<b>AT JANUARY 31, 2018</b>	<b>6,016,442</b>	<b>18,049</b>	<b>25,782</b>	<b>56,460</b>	<b>349</b>	<b>100,638</b>	<b>844</b>	<b>101,483</b>
Change in fair value of hedging instruments				15		15		15
Translation differences					(554)	(554)	20	(534)
Actuarial gains and losses				(196)		(196)	(5)	(201)
<b>Income and expenses recognized directly in equity</b>				<b>(181)</b>	<b>(554)</b>	<b>(735)</b>	<b>15</b>	<b>(720)</b>
Net income				3,334		3,334	0	3,334
<b>COMPREHENSIVE INCOME</b>				<b>3,153</b>	<b>(554)</b>	<b>2,599</b>	<b>15</b>	<b>2,614</b>
Proceeds from issue of shares	1,450	4	36			40		40
Treasury shares				(131)		(131)		(131)
Share-based payments				751		751		751
Transactions with non-controlling interests				688		688	(89)	599
Other movements				276		276	1	277
<b>AT JANUARY 31, 2019</b>	<b>6,017,892</b>	<b>18,053</b>	<b>25,818</b>	<b>61,197</b>	<b>(205)</b>	<b>104,861</b>	<b>771</b>	<b>105,633</b>
Change in fair value of hedging instruments				(16)		(16)		(16)
translation differences					717	717	20	737
Actuarial gains and losses				4		4		4
<b>Recognized income and expense directly in equity</b>				<b>(12)</b>	<b>717</b>	<b>705</b>	<b>20</b>	<b>725</b>
Net income				(7,144)		(7,144)	103	(7,041)
<b>COMPREHENSIVE INCOME</b>				<b>(7,156)</b>	<b>717</b>	<b>(6,439)</b>	<b>123</b>	<b>(6,316)</b>
Proceeds from issue of shares								
Treasury shares				(114)		(114)		(114)
Share-based payments				359		359		359
Transactions with non-controlling interests				(41)		(41)		(41)
Other movements				35		35		35
<b>AT JULY 31, 2019</b>	<b>6,017,892</b>	<b>18,053</b>	<b>25,818</b>	<b>54,280</b>	<b>512</b>	<b>98,661</b>	<b>894</b>	<b>99,556</b>

The notes are an integral part of the consolidated financial statements.

## 2.4. Consolidated statement of cash flows

Half year closed on July 31, 2019

<i>(In € thousands)</i>	H1 2019	H1 2018	January 31, 2019
<b>Net income before minority interests</b>	<b>(7,041)</b>	<b>(7,778)</b>	<b>3,334</b>
Share of profit of associates	(264)	550	(106)
Amortization and provisions	5,096	1,996	4,353
Net impact of capitalization of development costs	(82)	(1,635)	(2,679)
Income taxes (current and deferred)	(2,501)	(2,794)	2,505
Income taxes paid	(415)	(332)	(1,736)
Unrealized financial gains and losses	(368)	29	(370)
Share-based payment transactions	358	333	751
Gains and losses on assets disposals	16	1	(6)
<b>CASH FLOWS</b>	<b>(4,722)</b>	<b>(9,629)</b>	<b>6,046</b>
Trade receivables	26,703	25 358	(442)
Trade payables	(2,058)	(1,450)	(1,066)
Other receivables and other liabilities	(18,534)	(13,890)	5,582
<b>Changes in working capital requirements</b>	<b>6,101</b>	<b>10,017</b>	<b>4,074</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,379</b>	<b>388</b>	<b>10,120</b>
Purchase of intangible assets	(566)	(337)	(796)
Purchase of property, plant and equipment	(713)	(1,461)	(3,395)
Income of asset transferred	-	-	8
Acquisition of subsidiaries, net of cash acquired	33	99	(4)
Other investment operations	(785)	(103)	(2,425)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(2,032)</b>	<b>(1,802)</b>	<b>(6,613)</b>
Proceeds from loans	8,034	4,753	49,365
Repayment of borrowings	(10,030)	(6,276)	(49,869)
Proceeds from issue of shares	0	24	40
Purchase and proceeds from disposal of treasury shares	(114)	45	(131)
Dividends paid to minority shareholders	-	(89)	(89)
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>	<b>(2,110)</b>	<b>(1,544)</b>	<b>(684)</b>
Effect of exchange rate changes on cash and cash equivalents	164	95	(456)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,599)</b>	<b>(2,863)</b>	<b>2 367</b>
Opening cash position	18,086	15,725	15,720
Closing cash position <sup>(1)</sup>	15,487	12,858	18,087
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,599)</b>	<b>(2,863)</b>	<b>2,367</b>

<sup>(1)</sup> The impact of IFRS 16 increases in the amortization and provision and thus an improvement in self-financing capacity of +€2.8 million, against the repayment of finance lease obligation in the financing part of the Cash Flow Statement for -€2.8 million.

The notes are an integral part of the consolidated financial statements.

## 2.5. Notes to the consolidated financial statements

Table of contents of notes to the consolidated financial statements

### Note 1. Accounting principles

#### Note 1.1. General information

The ESI Group is the world's leading creator of Virtual Prototyping software and services. A specialist in materials physics, ESI developed a unique and innovative know-how to help manufacturers replace real prototypes with virtual prototypes, enabling them to manufacture, assemble and test their products in different environments.

It should be noted that the Group's activity is subject to significant seasonal fluctuations. As is generally observed in the software sector, the Group has historically experienced higher levels of activity, sales, operating profit and net income in the second half of the year.

ESI Group is a French company, headquartered at 100-102 Suffren Avenue in Paris (75015). It is listed on the Euronext market in Paris compartment B under the code ISIN FR 0004110310.

ESI Group's semi-annual consolidated financial statements were finalized by the Board of Directors on September 18, 2019

#### Note 1.2. Accounting standards applied

ESI Group's consolidated accounts for the six months ended July 31, 2019 were established in accordance with the standard IAS 34 for interim financial reporting. This standard provides that, for summary accounts, these do not include all the information required by the IFRS repository for the preparation of annual consolidated accounts. These summary accounts must therefore be read in relation to the consolidated accounts for the year ended January 31, 2019.

The accounting principles used for the development of these summary statements are identical to those applied for the consolidated financial statements ended January 31, 2019, except for the new mandatory application standards in 2019 as described below.

The annual consolidated accounts as of January 31, 2019 and the consolidated accounts summaries as of July 31, 2019 are established in accordance with the IFRS (International Financial Reporting Standards) framework as adopted in the European Union.

#### New standards which application is mandatory starting 2019

The Group has applied the following standards and interpretations mandatory as of February 1, 2019:

- IFRS 16 - Leases
- IFRIC 23 - Uncertainty over Income tax treatments

IFRS 16 is a major revision in the accounting of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. Based on this model, the amortization of assets is accounted for in operating expense, and the cost of the debt towards the lessor is accounted for in financial expense. Under the standard applied on the financial year ended on January 31, 2019, the rent expense is recorded within the operating expense. The Group has chosen to apply two exemptions provided by IFRS16: recognize short-term leases (term <1 year) and leases with underlying asset of low value as operating rent expenses.

The Company adopts IFRS16 for the financial year beginning February 1, 2019 using the simplified retrospective approach. Under this approach, the effect of the first-time application of the standard is recognized as adjustment to the opening balance of the consolidated equity without restatement of comparative information

At February 1, 2019, the Group has recognized a new right-of-use assets, mainly related to leased offices and vehicles, and a new liability related to lease debts for an amount of €23.790 million.

The Group has chosen to use the two exemptions allowed by IFRS 16 and to keep recognition as operating expense for leases with a lease term no more than 12 months or leases with underlying asset of low value.

To determine the lease liabilities, the Group has discounted future lease payments using marginal borrowing rate as of February 1, 2019. The weighted average of rates applied is 2.5%.

At July 31, 2019, the right-of-use assets represent a net book value of €22.077 million, including a gross value of €24.874 million and an accumulated amortization of €2.797 million. The leases liabilities represent an amount of €22.155 million which includes short term debts of €324 thousand.

In the first half year 2019, the restatement of rental charges amounts to €2.811 million, almost entirely offset by the amortization of the right-of-use assets: the impact on the current operating result is +€14 thousand. The impact of the IFRS 16 entries on the financial result is an additional expense of €81 thousand, and a negative impact on net income of €44 thousand after the deferred tax expense of +€23 thousand.

In accordance with IFRS 16, leases are recognized as property, plant and equipment under a right-of-use. These contracts are recognized at the commencement date of the contract for the discounted value of the minimum lease payments for a liability corresponding to the lease liabilities due to the lessor. The assets are amortized on a straight-line basis over the lease term, which corresponds to the non-cancellable period of each contract, unless the Group is reasonably certain to exercise the contractual renewal options.

IFRIC 23 clarifies application of the recognition and measurement provision of IAS 12, "Income taxes", when there is uncertainty over income tax treatments under that standard. Uncertain tax liabilities previously shown within provisions have been reclassified within income tax liabilities. ESI Group has chosen to apply IFRIC 23 using the simplified retrospective method. IFRIC 23 has no material impact on the Group's consolidated financial statements.

### Note 1.3. Use of estimates and assumptions

Preparation of the consolidated financial statements requires the use of various estimates and assumptions made by the Group's management. These estimates and assumptions have an impact on the valuation of assets and liabilities, as well as on the amounts recorded as income or expenses throughout the fiscal year. Estimates include, but are not limited to, assumptions used to determine the impact of options and free shares granted to employees, business combinations, revenue recognition, depreciation of non-current assets, valuation of deferred tax assets, valuation of derivative instruments, capitalized development costs, provisions for impairment of doubtful receivables, taxes, risks and disputes, as well as provisions for post-employment benefits.

The estimates withheld as of July 31, 2019 could be significantly changed at the annual close of accounts.

### Note 2. Significant events for the six-month period

Not applicable.

### Note 3. Scope of consolidation

#### Note 3.1. Changes in Goodwill

(in € thousands)	January 31, 2019	Increase	Decrease	Foreign exchange gain/loss	July 31, 2019
Gross values	41,404			147	41,550
<b>TOTAL NET VALUES</b>	<b>41,404</b>			<b>147</b>	<b>41,550</b>

#### Note 3.2. Amortization of intangibles assets acquired in business combinations

Starting from January 31, 2019, the amortization of intangible assets acquired in business combinations is presented in the Current operating result, allocated between research and development costs and selling and marketing expenses depending on their type (respectively for codes and customer relationships).

At July 31, 2019, the amortization of codes amounts to €237 thousand and the amortization of the customer relationships stands at €307 thousand - even amounts as in the first half of 2018.

At January 31, 2019, the amortization of codes amounted to €407 thousand and the amortization of the customer relationships stood at €613 thousand.



### Note 3.3. List of entities in the scope of consolidation

The table below presents the dates of creation of head offices of Group subsidiaries and the percentage of capital directly or indirectly held:

Subsidiaries	Date of creation or acquisition	Subsidiary head office	% of capital held		
			H1 2019	H1 2018	January 31, 2019
<b>FULLY CONSOLIDATED SUBSIDIARIES</b>					
Engineering System International	April 1973	Paris, France	100%	100%	100%
Engineering System International GmbH	July 1979	Neu-Isenburg, Germany	100%	100%	100%
ESI Japan, Ltd	July 1991	Tokyo, Japan	97%	97%	97%
ESI North America, Inc.	March 1992	Troy, Michigan, United States	100%	100%	100%
Hankook ESI Co., Ltd.	September 1995	Seoul, South Korea	99%	99%	99%
ESI Group Hispania s.l.	February 2001	Madrid, Spain	100%	100%	100%
STRACO	April 2001	Compiègne, France	98%	98%	98%
Mecas ESI s.r.o.	May 2001	Plzen, Czech Republic	95%	95%	95%
ESI UK Limited	January 2002	London, England	100%	100%	100%
ESI US Holding, Inc.	August 2002	Dover, Delaware, United States	100%	49%	100%
ESI US R&D, Inc.	August 2002	San Diego, California, United States	100%	74%	100%
Calcom ESI SA	December 2002	Lausanne, Switzerland	99%	99%	99%
ESI Software (India) Private Limited	February 2004	Bangalore, India	100%	100%	100%
Hong Kong ESI Co., Limited	February 2004	Hong Kong, China	100%	100%	100%
Zhong Guo ESI Co., Ltd	February 2004	Guangzhou, China	100%	100%	100%
ESI-ATE Holdings Limited	July 2006	Hong Kong, China	100%	100%	100%
ESI-ATE Technology (China), Ltd	August 2006	Beijing, China	100%	100%	100%
ESI South America Comercio e Servicos de Informatica, Ltda	June 2008	São Paulo, Brazil	95%	95%	95%
ESI Italia s.r.l.	September 2008	Bologna, Italy	100%	100%	100%
Pacific Mindware Engineering Private Limited	December 2008	Pune, India	100%	100%	100%
ESI Services Tunisia	April 2009	Tunis, Tunisia	95%	95%	95%
ESI Group Beijing Co., Ltd	October 2010	Beijing, China	100%	100%	100%

Subsidiaries	Date of creation or acquisition	Subsidiary head office	% of capital held		
			H1 2019	H1 2018	January 31, 2019
<b>FULLY CONSOLIDATED SUBSIDIARIES (NEXT)</b>					
ESI Software Germany GmbH	August 2011	Stuttgart, Germany	100%	100%	100%
ESI Nordics AB	December 2011	Sollentuna, Sweden	100%	100%	100%
ESI US, Inc.	February 2012	Farmington Hills, Michigan, United States	100%	100%	100%
OpenCFD Limited	September 2012	Berkshire, England	100%	100%	100%
CyDesign Labs, Inc.	October 2013	Palo Alto, United States	0%	99.9%	0%
CyDesign LTD	October 2013	Oxford, England	0%	99.9%	99.9%
ESI Services Vietnam Co., Ltd	December 2013	Ho Chi Minh City, Vietnam	100%	100%	100%
Civitec	March 2015	Versailles, France	80%	80%	80%
ITI GmbH	January 2016	Dresden, Germany	96%	96%	96%
ITI Southern Europe	January 2016	Rungis, France	96%	96%	96%
Mineset Inc	February 2016	Milpitas, United States	100%	100%	100%
Scilab Enterprises	February 2017	Paris, France	100%	100%	100%
<b>SUBSIDIARY ACCOUNTED FOR USING THE EQUITY METHOD</b>					
AVIC-ESI (Beijing) Technology Co. Ltd	February 2014	Beijing, China	45%	45%	45%

## Note 4. Operating data

### Note 4.1. Revenue

Half year closed on July 31, 2019

(in € thousands)	H1 2019	H1 2018	January 31, 2019
TOTAL LICENSES AND MAINTENANCE	40,854	39,400	109,836
Consulting	13,585	13,387	28,793
Other revenue	369	444	784
TOTAL SERVICES	13,954	13,831	29,577
<b>CONSOLIDATED REVENUE</b>	<b>54,809</b>	<b>53,231</b>	<b>139,413</b>
O/w total co-financed research and development projects included in service revenue	2,396	2,155	4,567

Note 4.2. Information by geographic area

(in € thousands)	Europe, Middle-East and Africa	Asia-Pacific	Americas	Eliminations	Consolidated
HALF-YEAR ENDED JULY 31, 2019					
External clients	23,069	22,637	9,103	-	54,809
Affiliate companies	26,256	4,448	3,456	(34,161)	-
NET SALES	49,325	27,085	12,559	(34,161)	54,809
<b>ASSETS ALLOCATED</b>	<b>294,543</b>	<b>45,261</b>	<b>28,111</b>	<b>(142,872)</b>	<b>225,042</b>
YEAR ENDED JANUARY 31, 2019					
External clients	68,843	49,769	20,802		139,413
Affiliate companies	83,329	9,425	7,292	(100,046)	
NET SALES	152,172	59,193	28,094	(100,046)	139,413
<b>ASSETS ALLOCATED</b>	<b>301,695</b>	<b>43,191</b>	<b>20,188</b>	<b>(124,114)</b>	<b>230,575</b>
HALF-YEAR ENDED JULY 31, 2018					
External clients	22,857	22,057	8,318		53,231
Affiliate companies	27,407	4,682	4,165	(36,253)	
NET SALES	50,264	26,738	12,482	(36,253)	53,231
<b>ASSETS ALLOCATED</b>	<b>246,157</b>	<b>38,966</b>	<b>28,407</b>	<b>(111,195)</b>	<b>202 334</b>

Note 4.3. Personnel costs

Personnel costs are presented by destination in the income statement. Their break down by nature is as follows:

*Half year closed on July 31, 2019*

(in € thousands)	H1 2019	H1 2018	January 31, 2019
Salaries	(34,835)	(33,520)	(73,626)
Payroll taxes	(7,907)	(8,966)	(17,834)
Share-based payments	(358)	(333)	(751)
Post-employment benefits	(232)	(446)	(563)
<b>TOTAL PERSONNEL COSTS</b>	<b>(43,332)</b>	<b>(43,265)</b>	<b>(92,774)</b>

## Note 5. Intangible assets

### Note 5.1. Change in intangible assets

(in € thousands)	January 31, 2019	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	July 31, 2019
<b>GROSS VALUES</b>						
Development costs	63,192		14,565			77,757
Intangible assets with an indefinite useful life	12,044					12,044
Other intangible assets	21,635		479	(4)	(95)	22,015
<b>TOTAL</b>	<b>96,872</b>		<b>15,044</b>	<b>(4)</b>	<b>(95)</b>	<b>111,817</b>
<b>AMORTIZATION</b>						
Development costs	(19,041)		(14,482)			(33,523)
Intangible assets with an indefinite useful life	(73)					(73)
Other intangible assets	(15,948)		(660)		(95)	(16,513)
<b>TOTAL</b>	<b>(35,062)</b>		<b>(15,142)</b>		<b>(95)</b>	<b>(50,108)</b>
<b>NET CARRYING AMOUNTS</b>						
Development costs	<b>44,152</b>		83			44,235
Intangible assets with an indefinite useful life	11,971					11,971
Other intangible assets	5,687		(181)	(4)		5,502
<b>TOTAL</b>	<b>61,811</b>		<b>(98)</b>	<b>(4)</b>		<b>61,709</b>

### Note 5.2. Research and development costs

Half year closed on July 31, 2019

#### NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS

(in € thousands)	H1 2019	H1 2018	January 31, 2019
Development costs capitalized during the period	14,565	14,985	29,937
Development costs amortized during the period	(14,482)	(13,350)	(27,258)
<b>NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS</b>	<b>83</b>	<b>1,635</b>	<b>2,679</b>

#### RECONCILIATION OF R&D COSTS INCURRED AND ACCOUNTED FOR IN THE INCOME STATEMENT

(in € thousands)	H1 2019	H1 2018	January 31, 2019
<b>R&amp;D costs incurred during the period</b>	<b>(17,141)</b>	<b>(17,811)</b>	(36,763)
Development costs capitalized during the period	14,565	14,985	29,937
Development costs amortized during the period	(14,482)	(13,350)	(27,258)
French R&D tax credit	1,286	1,350	2,979
Amortizations acquired software assets	(307)	(199)	(613)
<b>TOTAL R&amp;D COSTS RECOGNIZED AS EXPENSES DURING THE FISCAL YEAR</b>	<b>(16,079)</b>	<b>(15,025)</b>	<b>(31,718)</b>

## Note 6. Financing

### Note 6.1. Gross financial debt

Detail and maturity of financial debt

At July 31, 2019	Maturity at July 31, 2019					
(in € thousands)	2020	2021	2022	2023	2024 and beyond	Total
Syndicated loan	3,669	4,398	4,898	4,898	9,796	27,659
Short-term revolving loan	4,000					4,000
Other bank borrowings		800	800	800	3,175	5,575
Factoring of French R&D tax credit for 2016		2,433				2,433
Profit-sharing funds		129	33		995	1,158
<b>TOTAL</b>	<b>7,670</b>	<b>7,760</b>	<b>5,731</b>	<b>5,698</b>	<b>13,966</b>	<b>40,825</b>
	CURRENT: 7,670		NON-CURRENT: 33,157			

At January 31, 2019	Maturity at January 31					
(in € thousands)	2020	2021	2022	2023	2024 and beyond	Total
Syndicated loan	2,000	1,890	3,390	4,390	17,780	29,450
Short-term revolving loan	1,000					1,000
Other bank borrowings	3,111	600	600		1,575	5,886
Factoring of French R&D tax credit for 2014, 2015 and 2016	2,448	2,433		2,441		7,322
Profit-sharing funds	119	33			995	1,147
Other financial debts	123	65	65			253
<b>TOTAL</b>	<b>8,801</b>	<b>5,021</b>	<b>4,055</b>	<b>6,831</b>	<b>20,350</b>	<b>45,058</b>
	CURRENT: 8,801		NON-CURRENT: 36,256			

### Note 6.2. Financial income and expenses

Half year closed on July 31, 2019

(in € thousands)	H1 2019	H1 2018	January 31, 2019
Interest and related expenses on borrowings	(598)	(381)	(1,187)
Interest income	22	24	32
Foreign exchange gain/(loss)	(238)	(147)	379
Other financial expenses	(147)	(206)	(501)
<b>FINANCIAL RESULT</b>	<b>(961)</b>	<b>(710)</b>	<b>(1,277)</b>

Interest and related expenses on borrowings are composed of interests paid on bank loans, costs related to hedging instruments for the syndicated loan and the impact of IFRS 16 -€ 81K.

Other financial expenses include:

- Interest charges calculated on employee benefit commitments;
- Factoring expenses for receivables related to the French R&D tax credit;
- Overdraft interest charges.

Details on foreign exchange gains and losses are as follows:

(in € thousands)	H1 2019	H1 2018	January 31, 2019
USD	48	72	184
JPY	182	(86)	(54)
KRW	105	86	206
Autres devises	(573)	(218)	42
<b>TOTAL</b>	<b>(238)</b>	<b>(146)</b>	379

## Note 7. Tax

### Note 7.1. Income tax expense

The tax recorded in the Consolidated P&L is broken down as follows:

(in € thousands)	H1 2019	H1 2018	January 31, 2019
Current taxes	(1,125)	(1,079)	(2,397)
Deferred taxes	3,626	3,873	(109)
<b>TOTAL</b>	<b>2,501</b>	<b>2,794</b>	(2,505)

As noted in Note 1.1, the Group's activity is subject to seasonal fluctuations that generate deferred tax assets as of July 31, 2019

### Note 7.2. Deferred tax

Breakdown of deferred taxes by tax base:

(in € thousands)	H1 2019	H1 2018	January 31, 2019
Tax loss carryforwards	5,275	6,526	1,128
Temporary differences related to tax treatment of maintenance	3,944	3,081	4,478
Provisions for employee benefit commitments	3,633	3,070	3,159
Others	(1,845)	(1,612)	(1,583)
<b>IMPÔTS DIFFÉRÉS NETS</b>	<b>10,840</b>	<b>11,065</b>	<b>7,182</b>

## Note 8. Subsequent events

No subsequent events to be reported.

# 3 STATUTORY AUDITORS' REVIEW REPORT ON THE 2019 HALF YEAR FINANCIAL INFORMATION

**PricewaterhouseCoopers Audit**  
63, rue de Villiers  
92208 Neuilly-sur-Seine Cedex  
S.A. au capital de € 2.510.460

Statutory auditor  
Member of the regional  
company of Versailles

**ERNST & YOUNG Audit**  
1/2, place des Saisons  
92400 Courbevoie – Paris-La Défense 1  
S.A.S à capital variable

Statutory auditor  
Member of the regional  
company of Versailles

*This is a free translation into English of the Statutory Auditors' review report issued in French and it is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

## **ESI Group**

Period of February 1 to July 31, 2019

In accordance with our appointment as statutory auditors by the General Shareholders' Meeting, and in application of article L.451-1-2 III of the French monetary and financial code, we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of ESI Group SA, for the period from February 1 to July 31, 2019;
- the verification of the information contained in the half-year management report.

These condensed half-years consolidated financial statements were prepared under the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements, based on our review.

### **I. Conclusion on the financial statements**

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

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. These procedures are less in scope than those required for an audit conducted in accordance with professional standards applicable in France. Consequently, a review does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

### **II. Specific verification**

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

We have no matters to report with respect to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-sur-Seine and Paris-La Défense, September 30, 2019

The Statutory Auditors  
French original signed by

PricewaterhouseCoopers Audit  
Thierry Charron

ERNST & YOUNG Audit  
Frédéric Martineau



## **4 DECLARATIONS BY THE PERSON RESPONSIBLE OF THE HALF YEAR FINANCIAL REPORT**

« I hereby declare that, to the best of my knowledge, the half year financial statements have been prepared in accordance with applicable accounting standards and that they give a fair view of the assets, financial position and results of the Company and all consolidated companies making up the Group, and that this Half year Activity Report includes a fair review of the important events which occurred during the first six months of the year, their impact on the half year financial statements and the main transactions between related parties, together with a description of the principal risks and uncertainties that they face in the remaining six months of the year. »

Paris, October 1<sup>st</sup>, 2019

Cristel de Rouvray

Chief Executive Officer of ESI Group