
HALF-YEAR FINANCIAL REPORT

AS OF JUNE 30, 2021

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1. MANAGEMENT REPORT

Preamble

The financial information below presents the activity and the financial statements of ESI Group, a French “société anonyme”, registered with the Creteil Trade and Company Register under number 381 080 225. The Group’s headquarters are located 3 bis rue Saarinen, Immeuble Le Séville, 94528 Rungis Cedex, France. The company is listed in compartment B of Euronext Paris, under the ISIN code: FR 0004110310.

In this report, ESI Group is hereinafter referred to as “ESI Group” or the “Company”. The Company and all its affiliated companies are hereinafter referred to as the “Group” or “ESI”.

1.1. Overall presentation

Founded in 1973, ESI Group is a leading innovator in Virtual Prototyping solutions and a global enabler of industrial transformation. Thanks to the company’s unique know-how in the physics of materials, the Company has developed and refined, over the last 45 years, advanced simulation capabilities. Having identified gaps in the traditional approach to Product Lifecycle Management (PLM), ESI has introduced a holistic methodology centered on industrial productivity and product performance throughout its entire lifecycle, i.e. Product Performance Lifecycle™, from engineering to manufacturing and in operation.

Present in more than 20 countries, and in major industrial sectors, ESI employs 1200 high level specialists.

1.2. Revenues and consolidated financial statements

Revenue growth and positive momentum on profitability indicators

Half year revenues were €81.8m illustrating the stability of the Group’s recurring business and the rebound of the New Business activity with a growth of 18.4% and 21.8% cer (from €5.0m in H1-FY20 to €5.9m in 2021). In Q2 2021, new business increased by 67.8% cer to €2.9m from €1.8m in Q2 2020.

As part of its healthy run-rate initiative, ESI Group continues its cost management started in 2020 and shows improved gross margin rates from 77.3% in H1 2020 to 78.2% in 2021 and increased adjusted EBIT by +43.9%. Net result jumps 25.1% to €11.1m.

Key figures

Half year closed on June 30, 2021

(€m)	6/30/2021 6m	6/30/2020 6m	Change	Change Constant exchange rate (c€r)
Revenue	81.8	80.8	+1.3%	+4.3%
Licenses	70.0	69.2	+1.2%	
Services	11.8	11.6	+1.8%	
Gross margin	64.0	62.4	+2.4%	+5.7%
% revenue	78.2%	77.3%		
EBIT (adjusted¹)	18.0	12.5	+43.9%	+50.8%
% revenue	22.0%	15.5%		
EBIT	18.2	12.7	+43.2%	+50.0%
Net result	11.1	8.9	+25.1%	+34.1%
% revenue	13.5%	11.0%		
Cash	36.2	24.7	+46.4%	

3 regions grew (excl. forex impact) and Americas is leading the growth (+10.4%)

The geographical breakdown of half-year revenues is almost identical to that of the first half of 2020: the EMEA region represents 52.1% (vs. 51.6%) of total revenues, Asia represents 33.5% (vs. 34.1%) and the Americas represent 14.4% (vs. 14.3%). Excluding the forex impact, the Americas region was the one with the highest increase: 10.4% compared to 5.2% in Asia and 2.0% in EMEA.

Sales in line with the key strengths of the Group

The Group's main customers continue to show interest in ESI's solutions, which reinforces the relevance of the value provided.

The Group's four priority focus industries - Automotive & Ground Transportation, Aeronautics & Aerospace, Heavy Industry, Energy - accounted for around 88.6% of revenues before deferred. ESI Group's sales was driven by the Automotive market, first industry of the Group, with a 2.3% increase at current rate.

ESI strengthens its cash flow and its balance sheet

During 2021 first half, ESI Group improved its Free Cash Flow (FCF) by €2.9m compare to the first semester 2020 thanks to lower capital expenditure and higher net cash margin.

The Group strengthens its balance sheet with a strong cash position at €36.2m, compared to €24.7m in June 2020. The net financial debt is at €6.8m vs €14.9m end of June 2020, with a gearing to 6.9% (Net debt/Equity) vs 15.6% end of June 2020.

¹ Adjusted EBIT is a non-GAAP measure composed of EBIT (IFRS) retreated from the impact of IFRS 16 standard. This impact amounts to €+0.2m for 2021 first half, composed of lease retreatment for €+3.0m and amortization for €-2.8m. This impact and its components are stable vs 2020 first half.

1.3. Cash-flows

Cash position amounted to €36.2m as at June 30, 2021, compared with €22.5m at December 31, 2020 and €24.7m at June 30, 2020.

Evolution of cash position between December 31, 2020 and June 30, 2021 is mainly due to:

- A net cash margin of €18m (before impact of IFRS 16 standard representing €2.7m) compared to €15.7m in 2020 first half, this increase resulting mostly from raise in profitability;
- A change in WCR of €0.2m compared to €0.3m in 2020 first half;
- Capital expenditures of -€0.6m compared to -€1.3m in 2020 first half;
- Payment of yearly installment of syndicated loan for -€4.5m.

Increase by €11.5m of cash position between June 30, 2020 and June 30, 2021 results mostly from:

- €13.75m received from two State-guaranteed loans (PGE) signed in 2020 second half;
- Payment of two yearly installments of syndicated loan: for 2020 for -€3.5m paid in 2020 second half (ESI benefited from French Covid-related governmental measures enabling 6 months postponement in payment), and for 2021 for -€4.5m paid in 2021 first half;
- Capital expenditures of -€0.7m for 2020 second half and -€0.6m for 2021 first half;
- Net cash generated from operating activities of €5.3m mostly resulting from operating result of 2020 second half and 2021 first half.

ESI Board meeting held on June 22, 2021 validated the extension of reimbursement of both State-guaranteed loan pursuant to options proposed by the contracts signed respectively with BPI France in August 2020 for €1.75m and with ESI French banking pool in October 2020 for €12m. Both State-guaranteed loans will be reimbursed over a five year period, with start of repayment differed by one year. At the date of approval of financial statements by the Board related contract amendments are under signing.

As of June 30, 2021, ESI Group held 6.0% of its capital in treasury shares.

1.4. Balance sheet

Gross financial debt is €43m (vs. €47.4m as of December 2020) and net debt decreased to €6.8m (vs. €24.9m) related to business seasonality. The main flow of the period is the -€4.5m payment of syndicated loan installment. Gearing (net debt-to-equity) thus stood at 6.9% compared with 28.4% at end 2020.

1.5. Significant events of the period

At the operational level, ESI Group is accelerating the execution of its worldwide transformation plan, which is focused on developing its revenues and improving its margins. In the first half of 2021, the Group has recorded initial positive signs showing overall growth (+4.3% at constant rate), particularly in New Business with +21.8% at constant rate (from €5.0m in the first half of 2020 to €5.9m in 2021), and a significant improvement in margins and financial indicators. A 3-year strategic plan will be presented on October 5, 2021.

In terms of governance, ESI Group is transforming itself by adopting recognized best practices for an international listed company.

- In February 2021, the Group announced the appointment of Alex Davern as Director and Chairman of the Board. Alex Davern was appointed as an independent censor to the Board of Directors in October 2020, and was previously CEO of National Instruments, Inc. (NATI: NASDAQ).
- In May 2021, the Group announced the end of the shareholders' agreement and the end of actions in concert between Alain de Rouvray, Amy-Sheldon Lorient de Rouvray, Cristel Lorient de Rouvray, John-Alexandre Lorient de Rouvray, Amy-Louise Lorient de Rouvray, and the Dubois succession represented by Xiumei Dubois.
- In September 2021, the Board of Directors co-opted Patrice Soudan as an independent director, taking over the mandate of Vincent Chaillou, who resigned.

Finally, ESI Group is strongly mobilized to deal with the COVID-19 pandemic and is concerned with supporting its employees. Thus, among many initiatives, it has been decided to introduce a "no-meeting day" for the well-being of employees.

1.6. Outlook

Forward-looking Statements

In millions, except. percentages	FY21 Range		FY20
H2	51.7	54.7	51.8
<i>Growth</i>	0%	6%	
<i>Growth excl. forex</i>	2%	8%	
FY	133.5	136.5	132.6
<i>Growth</i>	1%	3%	
<i>Growth excl. forex</i>	4%	6%	

These statements are subject to a number of risks and uncertainties, including those related to the COVID-19 virus and associated further economic and market disruptions; further adverse changes or fluctuations in the global economy; further adverse fluctuations in our industry, foreign exchange fluctuations, changes in the current global trade regulatory environment; fluctuations in customer demands and markets; fluctuations in demand for our products including orders from our large customers; cyber-attacks; expense overruns; and adverse effects of price changes or effective tax rates. The company directs readers to its Universal Registration Document – Chapter 3 presenting the risks associated with the company's future performance.

ESI Group's 1st investor conference will be held on Tuesday, October 5th, 2021 between 3:30 pm and 5:30pm CET where we will share the Group's long-term vision and its 3-year plan.

1.7. Risk factors

A detailed analysis of the different risk factors can be found in the 2020 Universal Registration Document (filed with the AMF on April 16, 2021) in Chapter 3 "Risks and Risk Management", also available on our website <http://www.esi-group.com>.

The Group has not identified any additional risk during this first half-year and for the remaining six months of the fiscal year.

1.8. Transactions with related parties

The nature of the transactions with related parties has not changed significantly during 2021 first half, as compared to December 31, 2020.

1.9. Information on shareholding

Breakdown of share capital and voting rights as of June 30, 2021:

		Shares number	% capital	Voting rights number	% voting rights
NAME	SURNAME				
DAVERN	Alexander	5,444	0.09%	5,444	0.07%
DE ROUVRAY ²	Alain	1,207,391	19.91%	2,414,782	30.31%
DES ISNARDS	Charles-Helen	3,551	0.06%	7,102	0.09%
D'HOTELANS	Eric	261	0.00%	522	0.01%
JACQ	Véronique	157	0.00%	218	0.00%
RAMANATHAN	Rajani	1	0.00%	2	0.00%
DE BALMANN	Yves	1	0.00%	2	0.00%
Board members (registered shares) -non executives & board advisors		1,216,806	20.07%	2,428,072	30.48%
DE ROUVRAY	Cristel	206,270	3.40%	412,540	5.18%
CHAILLOU	Vincent	22,207	0.37%	38,404	0.48%
SALARI	Mike	11,351	0.19%	20,336	0.26%
LEFEBVRE	Dominique	3,756	0.06%	3,761	0.05%
ZORGATI	Olfa	1	0.00%	1	0.00%
ROMEFORT-REGNIER	Corinne	7,468	0.12%	11,936	0.15%
GEC members (registered shares)		251,053	4.1%	486,978	6.1%
Employee shareholders (registered shares)		270,696	4.5%	516,402	6.48%
Public (registered shares)		575,154	9%	1,148,453	14%
Public (bearer shares)		3,386,102	56%	3,386,102	43%
Public TOTAL		3,961,256	65%	4,534,555	57%
Treasury shares		363,281	5.99%	0	0.00%
TOTAL		6,063,092	100.00%	7,966,007	100.00%

Crossing of thresholds:

Since January 1st, 2020 until the filing date of this Half-year Financial Report, the following crossing of thresholds have been declared:

- Long Path Partners:

- By letter dated February 12, 2021 sent by the Long Path Partners fund, declares that the latter has crossed the legal and statutory threshold of 10% of the Company's voting rights upwards with 627,767 shares representing 10.37% of the shares and 7.55% of the voting rights.

² On August 7, 2021, ESI Group was notified by Mr. Alain de Rouvray of threshold crossing - more information in the section "Crossing of thresholds".

- By letter dated March 26, 2021 sent by the Long Path Partners fund, declares that the latter has crossed the statutory threshold of 12.50% of the company's capital upwards with 787,757 shares representing 13.00% of the shares and 9.46% of the voting rights.
- By letter dated June 30, 2021 sent by the Long Path Partners fund, declares that the latter has crossed the legal and statutory threshold of 10% of the company's voting rights upwards with 839,087 shares representing 13.84% of the shares and 10.07% of the voting rights.

- Briarwood Chase Management:

- By letter dated January 22, 2021, the Briarwood Chase Management fund declared that it had crossed upward the statutory threshold of 7.5% of the Company's capital with 459,895 shares representing 7.62% of the shares and 5.54% of the voting rights.
- By letter dated August 20, 2021, the Briarwood Chase Management fund declared that it had crossed upward the legal and statutory threshold of 10% of the Company's capital with 606,511 shares representing 10.00% of the shares and 7.30% of the voting rights.
- By letter dated September 2, 2021, the Briarwood Chase Management fund declared that it had crossed upward the statutory threshold of 7.5% of the Company's voting rights with 632,197 shares representing 10.43% of the shares and 7.61% of the voting rights.

- Individual shareholders:

- Following the termination of the shareholder's agreement, on May 5, 2021,
 - Alain de Rouvray declared that he had crossed upward the statutory threshold of 17.5% of the Company's capital and the statutory threshold of 27.5% of the voting rights with 1,207,391 shares representing 19.93% of the shares and 29.00% of the voting rights.
 - Cristel Lorient de Rouvray declared that she had crossed upward the statutory threshold of 2.5% of the Company's capital and voting rights with 206,270 shares representing 3.40% of the shares and 4.95% of the voting rights.
 - John-Alexandre Lorient de Rouvray declared that he had crossed upward the statutory threshold of 2.5% of the Company's capital and voting rights with 204,270 shares representing 3.37% of the shares and 4.91% of the voting rights.
 - Amy-Louise Lorient de Rouvray declared that she had crossed upward the statutory threshold of 2.5% of the Company's capital and voting rights with 204,275 shares representing 3.37% of the shares and 4.91% of the voting rights.
 - Xiumei Dubois declared that she had crossed upward the legal and statutory threshold of 5% of the Company's capital and the statutory threshold of 7.5% of voting rights with 693,238 shares representing 5.72% of the shares and 8.32% of the voting rights.
- By letter dated August 7, 2021, Alain de Rouvray declared that he had crossed downward the legal and statutory threshold of 10% of the Company's capital and the legal and statutory threshold of 15% of the voting rights with 604,788 shares representing 9.97% of the shares and 14.56% of the voting rights.
- By letter dated August 7, 2021, Amy-Sheldon Lorient de Rouvray (Lawrence) declared that it had crossed upward the statutory threshold of 7.5% of the Company's capital and the statutory threshold of 12.5% of the Company's voting rights with 604,787 shares representing 9.97% of the shares and 14.56% of the voting rights.

2. INTERIM FINANCIAL STATEMENTS

2.1. Consolidated income statement

Half year closed on June 30, 2021

(In € thousands)	Note	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
Licenses and maintenance		70,023	69,214	109,201
Consulting		11,635	11,342	22,864
Other		175	256	508
REVENUE	4.1	81,833	80,811	132,573
Cost of sales		(17,873)	(18,378)	(33,838)
Research and development costs	5.2	(15,177)	(15,485)	(30,867)
Selling and marketing expenses		(20,534)	(21,613)	(40,242)
General and administrative costs		(10,059)	(12,643)	(23,589)
CURRENT OPERATING RESULT		18,188	12,693	4,037
Other operating income and expenses		(1)	6	9
OPERATING RESULT		18,187	12,699	4,046
FINANCIAL RESULT	6.2	(984)	(822)	(1,355)
Share of profit of associates		(143)	(189)	(258)
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS		17,060	11,688	2,433
Provision for income tax	7.1	(5,974)	(2,813)	1,008
NET INCOME BEFORE MINORITY INTERESTS		11,087	8,875	1,425
Minority interests		17	(5)	11
NET INCOME (GROUP SHARE)		11,069	8,881	1,414
Earnings per share (in euros)		3.91	1.57	0.25
Diluted earnings per share (in euros)		3.83	1.55	0.25

Statement of comprehensive income

(In € thousands)

	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
NET INCOME BEFORE MINORITY INTERESTS	11,087	8,875	1,425
OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME			
Change in the fair value of hedging instruments	4	10	11
Translation differences	609	(559)	(1,698)
OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME			
Actuarial gains and losses	(1)	(15)	(133)
Income and expenses recorded directly in equity	613	(565)	(1,820)
COMPREHENSIVE INCOME	11,700	8,311	(395)
Attributable to Group equity holders	11,681	8,321	(403)
Attributable to minority interests	19	(10)	8

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

2.2. Balance sheet

Half year closed on June 30, 2021

(In € thousands)

	Note	June 30, 2021	Dec 31, 2020	June 30, 2020
ASSETS				
NON-CURRENT ASSETS				
Goodwill	3.1	41,150	41,002	41,438
Intangible assets	5.1	63,179	63,424	61,843
Property, plant and equipment		4,231	4,696	5,181
Rights-of-use assets		15,743	17,742	18,320
Shares in affiliated companies		611	728	807
Deferred tax assets	7.2	12,519	14,685	15,254
Other non-current assets		2,884	3,014	3,271
Cash-flow hedging instruments		35	6	7
CURRENT ASSETS				
Trade receivables	4.1	35,188	33,486	32,845
Other current receivables		7,231	11,912	19,078
Prepaid expenses		3,172	3,198	3,094
Cash and cash equivalents		36,162	22,466	24,692
TOTAL ASSETS		222,106	216,359	225,830
LIABILITIES				
EQUITY				
Equity (Group share)				
Capital		18,110	18,110	18,055
Additional paid in capital		26,280	26,280	25,833
Reserves and retained earnings		44,165	42,477	42,392
Net income (loss)		11,069	1,414	8,880
Translation differences		23	(502)	450
Minority interests		73	82	62
NON-CURRENT LIABILITIES				
Long-term share of financial debt	6.1	34,258	39,264	25,957
Non-current finance lease obligation		11,012	12,324	13,504
Provision for employee benefits		11,796	11,474	11,328
Deferred tax liabilities	7.2	0	0	3,761
Cash-flow hedging instruments		21	14	16
Other long-term debt		594	661	1,109
CURRENT LIABILITIES				
Short-term share of financial debt	6.1	8,758	8,148	13,601
Current finance lease obligation		4,466	5,184	4,350
Trade payables		4,767	6,655	8,011
Accrued compensation; taxes and others short-term liabilities		22,917	22,754	27,297
Provisions for contingencies, risks and disputes		1,275	1,624	507
Deferred income		22,521	20,396	20,716
TOTAL LIABILITIES		222,106	216,359	225,830

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

2.3. Consolidated statement of changes in equity

<i>(In € thousand except number of shares)</i>	Number of shares	Share capital	Additional paid in capital	Net income, reserves and retained earnings	Translation differences	Equity attributable to parent company owners	Minority interests	Total Equity
AT DECEMBER 31, 2019	6,018,492	18,055	25,833	41,039	987	85,912	71	85,983
Change in fair value of hedging instruments				11		11		11
Translation differences					(1,695)	(1,695)	(3)	(1,698)
Actuarial gains and losses				(133)		(133)	0	(133)
Income and expenses recognized directly in equity				(122)	(1,695)	(1,817)	(3)	(1,820)
Net income				1,414		1,414	11	1,425
COMPREHENSIVE INCOME				1,292	(1,695)	(403)	8	(395)
Proceeds from issue of shares	18,100	54	447			526		526
Treasury shares				33		33		33
Share-based payments				783		783		783
Transactions with non-controlling interests						0		0
Other movements				722		928	3	931
AT DECEMBER 31, 2020	6,036,592	18,109	26,280	43,894	(502)	87,779	82	87,861
Change in fair value of hedging instruments				4		4		4
Translation differences					608	608	2	609
Actuarial gains and losses				(1)		(1)		(1)
Income and expenses recognized directly in equity				4	608	611	2	613
Net income				11,069		11,069	17	11,087
COMPREHENSIVE INCOME				11,073	608	11,681	19	11,700
Proceeds from issue of shares								
Treasury shares				(68)		(68)		(68)
Share-based payments				212		212		212
Transactions with non-controlling interests				125		43		15
Other movements				0		0		0
AT JUNE 30, 2021	6,036,592	18,109	26,280	55,237	23	99,648	73	99,721

CHANGES IN FIRST-HALF 2020

(In € thousand except number of shares)

	Number of shares	Share capital	Additional paid in capital	Net income, reserves and retained earnings	Translation differences	Equity attributable to parent company owners	Minority interests	Total Equity
AT DECEMBER 31, 2019	6,018,492	18,055	25,833	41,039	987	85,912	71	85,983
Change in fair value of hedging instruments				10		10		10
Translation differences					(555)	(555)	(4)	(559)
Actuarial gains and losses				(15)		(15)		(15)
Income and expenses recognized directly in equity				(6)	(555)	(560)	(4)	(565)
Net income				8,880		8,880	(5)	8,874
COMPREHENSIVE INCOME				8,874	(555)	8,320	(10)	8,310
Proceeds from issue of shares								
Treasury shares				(12)		(12)		(12)
Share-based payments				424		424		424
Transactions with non-controlling interests				(39)		(39)		(39)
Other movements				1,006		1,006		1,006
AT JUNE 30, 2020	6,018,492	18,055	25,833	51,293	432	95,611	61	95,673

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

2.4. Consolidated statement of cash flows

(In € thousands)

	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
Net income before minority interests	11,087	8,874	1,425
Share of profit of associates	143	(189)	258
Amortization and provisions ¹	4,772	6,042	11,575
Net impact of capitalization of development costs	(396)	11	(1,841)
Income taxes (current and deferred)	5,974	2,813	1,008
Income taxes paid	(1,198)	(401)	(1,620)
Unrealized financial gains and losses	76	359	114
Share-based payment transactions	212	424	783
Gains and losses on assets disposals and other components	42	4	20
Operating cash flow	20,711	18,316	11,722
Trade receivables	(1,445)	10,873	9,544
Trade payables	(1,967)	(549)	(1,865)
Other receivables and other liabilities	3,567	(9,979)	(10,445)
Changes in working capital requirements	154	345	(2,766)
NET CASH FROM OPERATING ACTIVITIES	20,866	18,661	8,956
Purchase of intangible assets	(137)	(577)	(918)
Purchase of property, plant and equipment	(451)	(754)	(1,105)
Acquisition / Sale of subsidiaries, net of cash acquired (including minority shares)	(146)	0	175
Other investment operations	145	190	131
NET CASH USED FOR INVESTING ACTIVITIES	(589)	(1,141)	(1,717)
Proceeds from loans	541	0	13,723
Repayment of borrowings ¹	(7,685)	(12,763)	(19,351)
Proceeds from issue of shares	0	0	526
Purchase and proceeds from disposal of treasury shares	(68)	(12)	33
Dividend paid	0	0	0
NET CASH USED FOR FINANCING ACTIVITIES	(7,212)	(12,775)	(5,069)
Effect of exchange rate changes on cash and cash equivalents	633	(294)	55
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,696	4,452	2,225
Opening cash position	22,465	20,241	20,241
Closing cash position	36,162	24,692	22,466
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,696	4,452	2,225

⁽¹⁾ The impact of IFRS 16 for 2021 first half is an increase of +€2.7m in the amortization and provision retreatment and thus an improvement in operating cash-flow, against the repayment of finance lease obligation in the financing part of the Cash Flow Statement for -€2.7m. IFRS 16 impact was also €2,7m in 2020 first half.

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

2.5. Notes to the interim 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.

ESI Group is a French company, with its headquarters at 3 bis rue Saarinen, Immeuble Le Séville, 94528 Rungis Cedex, France. It is listed on the Euronext market in Paris compartment B under the code ISIN FR 0004110310.

ESI Group's half-year consolidated financial statements were approved by the Board of Directors on September 3, 2021.

Note 1.2. Accounting standards applied

ESI Group's half-year consolidated accounts as of June 30, 2021 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 December 31, 2020.

Normative changes applicable for 2021 first half-year have no impact on Group consolidated accounts as of June 30, 2021.

The summary half-year consolidated accounts are presented in thousands of euros, unless otherwise stated. Some totals may show rounding differences.

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, revenue recognition, depreciation of non-current assets, valuation of deferred tax assets, capitalized development costs, provisions for impairment of doubtful receivables, taxes, risks and disputes, as well as provisions for post-employment benefits.

The estimates used as of June 30, 2021, with an uncertain context related to Covid-19 crisis situation, could be changed for year-end closing.

Note 2. Significant events for the first half-year

Financing

During 2021 first half ESI Group repaid €4.5m yearly installment of its syndicated loan, remaining amount to be repaid until 2026 is €20m. Revolving credit has not been used during the semester.

ESI Board meeting held on June 22, 2021 validated the extension of reimbursement of both State-guaranteed loan pursuant to options proposed by the contracts signed respectively with BPI France in August 2020 for €1.75m and with ESI French banking pool in October 2020 for €12m. Both State-guaranteed loans will be reimbursed over a five years period, with start of repayment differed by one year. At the date of approval of financial statements by the Board related contract amendments are under signing.

Changes in the scope of consolidation

During the half-year closed on June 30, 2021:

- In March, ESI Group acquired 5% minority share of the subsidiary ESI Tunisia for €61 thousand;
- In April, the French subsidiary Civitec was absorbed by ESI Group;
- In June, ESI Group acquired 2% minority share of the French subsidiary Straco for €95 thousand and then Straco was absorbed by ESI Group.

Note 3. Scope of consolidation

Note 3.1. Changes in Goodwill

(in € thousands)	Dec 31, 2020	Increase	Decrease	Foreign exchange gain/loss	June 30, 2021
Gross values	41,002			148	41,150
TOTAL NET VALUES	41,002			148	41,150

Management has not identified any indicator of impairment of goodwill and intangible assets with indefinite useful lives as of June 30, 2021.

Note 3.2. 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		
			June 2021	June 2020	December 2020
Fully consolidated subsidiaries					
Engineering System International	April 1973	Paris, France	100 %	100 %	100 %
Engineering System International GmbH	July 1979	Eschborn, Germany	100 %	100 %	100 %
ESI Japan, Ltd.	July 1991	Tokyo, Japan	97 %	97 %	97 %
ESI North America, Inc.	March 1992	Troy, Michigan, USA	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 SA	April 2001	Compiègne, France	— %	98 %	98 %
Mecas ESI s.r.o.	May 2001	Plzen, Czech Republic	95 %	95 %	95 %
ESI UK Ltd.	January 2002	London, England	100 %	100 %	100 %
ESI US Holding, Inc.	August 2002	Dover, Delaware, United States	100 %	100 %	100 %
ESI US R&D, Inc.	August 2002	San Diego, California, United States	100 %	100 %	100 %
Calcom ESI SA	December 2002	Lausanne, Switzerland	99 %	99 %	99 %
ESI Software (India) Private Ltd.	February 2004	Bangalore, India	100 %	100 %	100 %
Hong Kong ESI Co., Ltd.	February 2004	Hong Kong, China	100 %	100 %	100 %
ESI-ATE Holdings Ltd.	July 2006	Hong Kong, China	100 %	100 %	100 %
ESI ATE Technology (China), Ltd.	August 2006	Beijing, China	— %	100 %	— %
ESI South America Comércio e Serviços de Informatica, Ltda	June 2008	São Paulo, Brazil	95 %	95 %	95 %
ESI Italia s.r.l.	September 2008	Bologna, Italy	100 %	100 %	100 %
ESI Services Tunisia	April 2009	Tunis, Tunisia	100 %	95 %	95 %
ESI Group Beijing Co., Ltd.	October 2010	Beijing, China	100 %	100 %	100 %
ESI Software Germany GmbH	August 2011	Stuttgart, Germany	100 %	100 %	100 %
ESI Nordics AB	December 2011	Sollentuna, Sweden	100 %	100 %	100 %
OpenCFD Ltd.	September 2012	Berkshire, England	100 %	100 %	100 %
ESI Services Vietnam Co., Ltd.	December 2013	Ho Chi Minh City, Vietnam	100 %	100 %	100 %
CIVITEC SARL	March 2015	Versailles, France	— %	80 %	100 %
ITI GmbH	January 2016	Dresden, Germany	100 %	100 %	100 %
ITI Southern Europe SARL	January 2016	Rungis, France	100 %	100 %	100 %
Mineset Inc.	February 2016	Milpitas, United States	— %	100 %	— %
Scilab Enterprises	February 2017	Paris, France	— %	100 %	— %
Subsidiaries accounted for using the equity method					
JV AECC-ESI (Beijing) Technology Co., Ltd.	February 2014	Beijing, China	35 %	35 %	35 %

Note 4. Operating data

Note 4.1. Revenue

(in € thousands)	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
TOTAL LICENSES AND MAINTENANCE	70,023	69,214	109,201
Consulting	11,635	11,341	22,864
Other revenue	175	256	508
TOTAL SERVICES	11,810	11,597	23,372
CONSOLIDATED REVENUE	81,833	80,811	132,573
O/w total co-financed research and development projects included in service revenue	1,882	2,087	4,020

The revenue of the group is subject to seasonality, with a concentration of licensing contracts starting at the start of the year. Consequently, first half revenue is significantly higher than the one in second half.

As of June 30, 2021, trade receivables amounted to €35.2m, including €39.4m gross receivables and €-4.2m depreciation. As of December 31, 2020, trade receivables amounted to €34.3m, including €38.6m gross receivables and €-4.2m depreciation.

Note 4.2. Information by geographic area

Revenue is split between regions where it is actually produced.

(in € thousands)	Europe, Middle-East and Africa	Asia-Pacific	Americas	Eliminations	Consolidated
HALF-YEAR ENDED JUNE 30, 2021					
External clients	42,640	27,446	11,747	0	81,833
Affiliate companies	47,562	423	2,336	(50,321)	0
NET SALES	90,202	27,869	14,082	(50,321)	81,833
ASSETS ALLOCATED	286,859	62,353	45,082	(172,188)	222,106
YEAR ENDED DECEMBER 31, 2020					
External clients	62,598	50,109	19,867		132,573
Affiliate companies	77,114	9,267	6,242	(92,623)	0
NET SALES	139,711	59,376	26,109	(92,623)	132,573
ASSETS ALLOCATED	326,225	53,362	33,419	(196,648)	216,359
HALF-YEAR ENDED JUNE 30, 2020					
External clients	41,711	27,534	11,566	0	80,810
Affiliate companies	53,752	3,820	3,499	(61,071)	0
NET SALES	95,463	31,354	15,065	(61,071)	80,810
ASSETS ALLOCATED	355,275	48,845	25,545	(203,835)	225,830

Note 4.3. Personnel costs

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

(in € thousands)	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
Salaries	(37,115)	(37,839)	(74,137)
Payroll taxes	(9,540)	(8,585)	(17,850)
Share-based payments	(212)	(424)	(783)
Post-employment benefits	(637)	(440)	(670)
TOTAL PERSONNEL COSTS	(47,504)	(47,288)	(93,441)

Note 5. Intangible assets

Note 5.1. Change in intangible assets

(in € thousands)	December 31, 2020	Increase	Decrease	Foreign exchange gain/loss	Other movements	June 30, 2021
GROSS VALUES						
Development costs	75,783	15,040	0	0	0	90,824
Intangible assets with an indefinite useful life	12,044	0	0	0	0	12,044
Other intangible assets	22,899	141	0	(44)	0	22,996
TOTAL	110,726	15,181	0	(44)	0	125,863
AMORTIZATION						
Development costs	(28,492)	(14,644)	0	0	0	(43,136)
Intangible assets with an indefinite useful life	(73)	0	0	0	0	(73)
Other intangible assets	(18,739)	(782)	0	44	0	(19,477)
TOTAL	(47,304)	(15,426)	0	44	0	(62,686)
NET CARRYING AMOUNTS						
Development costs	47,293	396	0	0	0	47,690
Intangible assets with an indefinite useful life	11,971	0	0	0	0	11,971
Other intangible assets	4,158	(641)	0	0	0	3,517
TOTAL	63,424	(245)	0	0	0	63,179

Note 5.2. Research and development costs

NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS

(in € thousands)	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
Development costs capitalized during the period	15,040	14,374	31,211
Development costs amortized during the period	(14,644)	(14,385)	(29,370)
NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS	396	(11)	1,841

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

(in € thousands)	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
R&D costs incurred during the period	(16,763)	(16,263)	(35,060)
Development costs capitalized during the period	15,040	14,374	31,211
Development costs amortized during the period	(14,644)	(14,385)	(29,370)
French R&D tax credit	1,586	1,338	3,172
Amortizations acquired software assets	(396)	(549)	(819)
TOTAL R&D COSTS RECOGNIZED AS EXPENSES DURING THE FISCAL YEAR	(15,177)	(15,485)	(30,867)

Note 6. Financing

Note 6.1. Gross financial debt

Detail and maturity of financial debt at June 30, 2021

(in € thousands)	Maturity at June 30,					Total
	2022	2023	2024	2025	2026 and beyond	
Syndicated loan	5,000	4,888	4,888	4,886	0	19,662
Revolving loan	0					0
State-guaranteed loan		1,815	3,425	3,425	5,023	13,688
Other bank borrowings	3,594	800	2,375	800	400	7,969
Repayable advances and other financial debts	164	273	293	314	743	1,787
TOTAL	8,758	7,776	10,981	9,425	6,166	43,106
	CURRENT: 8,758			NON-CURRENT: 34,258		

During 2020 first half, main flow impacting gross financial debt was the repayment of €4.5m yearly syndicated loan installment.

Detail and maturity of financial debt at December 31, 2020

(in € thousands)	Maturity at December 31					Total
	2021	2022	2023	2024	2025 and beyond	
Syndicated loan	4,500	4,904	4,904	4,904	4,904	24,116
Short-term revolving loan						
State-guaranteed loan					13,680	13,680
Other bank borrowings	3,590	800	2,375	800	800	8,365
Repayable advances		241	210		740	1,191
Other financial debts	58					58
TOTAL	8,148	5,945	7,489	5,704	20,124	47,410
	CURRENT: 8,148			NON-CURRENT: 39,263		

Note 6.2. Financial income and expenses

(in € thousands)	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
Interest and related expenses on borrowings	(528)	(420)	(979)
Interest income	1	13	12
Foreign exchange gain/(loss)	21	161	314
Interest for provisions for employee benefits	(55)	(64)	(136)
Interest for rights-of-use assets	(184)	(287)	(301)
Other financial expenses	(239)	(224)	(265)
FINANCIAL RESULT	(984)	(821)	(1,355)

Note 7. Tax

Note 7.1. Income tax expense

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

(in € thousands)	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
Current taxes	(3,954)	(1,150)	(2,192)
Deferred taxes	(2,020)	(1,663)	1,184
TOTAL	(5,974)	(2,813)	(1,008)

Half year income tax cost has been computed based on 2021 Effective Tax Rates projected by tax consolidation perimeter.

Note 7.2. Deferred tax

Breakdown of deferred taxes by tax base:

(in € thousands)	Half year closed June 30, 2021	Half year closed June 30, 2020	Full year closed Dec 31, 2020
Deferred tax assets			
Tax loss carryforwards	7,071	4,542	9,741
Temporary differences related to tax treatment of maintenance	1,463	3,115	966
Provisions for employee benefit commitments	3,238	3,438	3,248
Temporary differences related to personnel	(171)	(146)	(145)
Provisions and other adjustments	4,679	4,305	4,636
Total deferred tax assets	16,279	15,254	18,446
Deferred tax liabilities			
Amortization of acquired intangible assets	(281)	(599)	(436)
Other	(3,479)	(3,162)	(3,324)
Total deferred tax liabilities	(3,760)	(3,761)	(3,760)
NET DEFERRED TAX	12,519	11,493	14,686

Please note that as of June 30, 2021 deferred tax assets and liabilities are offset at the boundaries of the tax consolidation perimeters.

Note 8. Subsequent events

No subsequent events to be reported.

3. STATUTORY AUDITORS' REVIEW REPORT ON THE 2021 HALF YEAR FINANCIAL INFORMATION

KPMG Audit

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92066 Paris-La Défense
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775 726 417 RCS Nanterre

Statutory auditor
Member of the regional
company of Versailles

ERNST & YOUNG et Audit

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TSA 14444
92037 Paris-La Défense Cedex
S.A.S. à capital variable
344 366 315 RCS Nanterre

Statutory auditor
Member of the regional
company of Versailles and of Centre

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 includes information relating to the specific verification of information given in the Group's half-yearly management report. 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 from January 1 to June 30, 2021

Statutory auditors' review report on the half-yearly financial information

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, and in application of article L. 451-1-2 III of the French monetary and financial code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of ESI Group, for the period from January 1 to June 30, 2021;
- the verification of the information presented in the half-yearly management report.

Due to the global crisis related to the Covid-19 pandemic, the condensed half-yearly consolidated financial statements of this period have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our procedures.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. 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. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. 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 accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

2. Specific verification

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

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

Paris-La Défense, September 9, 2021

The Statutory Auditors
French original signed by

KPMG Audit
Department of KPMG S.A.
Stéphanie Ortega
Partner

ERNST & YOUNG AUDIT

Pierre-Henri Pagnon
Partner

4. DECLARATIONS BY THE PERSON RESPONSIBLE OF THE HALF YEAR FINANCIAL REPORT

“I hereby certify that, to the best of my knowledge, the half year consolidated financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and profit and loss of the Company and all the companies included in the scope of consolidation, 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, and describes the principal risks and uncertainties for the remaining six months of the year.”

Paris, September 9, 2021

Cristel de Rouvray

Chief Executive Officer of ESI Group