
HALF-YEAR FINANCIAL REPORT

AS OF JUNE 30, 2023

SUMMARY

1. MANAGEMENT REPORT	3
1.1. Overall presentation	3
1.2. Highlights	3
1.3. Revenues and consolidated financial statements	5
1.4. Cash-flows	6
1.5. Balance sheet	7
1.6. Outlook	7
1.7. Risk factors	7
1.8. Transactions with related parties	7
1.9. Information on shareholding	8
1.10. Financial information definitions	9
2. INTERIM FINANCIAL STATEMENTS	10
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 interim consolidated financial statements	14
Note 1. Accounting principles	14
Note 2. Significant events for the first half-year	15
Note 3. Scope of consolidation	17
Note 4. Operating data	18
Note 5. Intangible assets	19
Note 6. Financing	21
Note 7. Tax	21
Note 8. Subsequent events	21
3. STATUTORY AUDITORS' REVIEW REPORT ON THE 2023 HALF YEAR FINANCIAL INFORMATION	22
4. DECLARATIONS BY THE PERSON RESPONSIBLE OF THE HALF YEAR FINANCIAL REPORT	25

The condensed half-yearly consolidated financial statements of ESI Group as of June 30, 2023 and related documentation were approved by the Board of Directors on September 12, 2023. When inserting the accounts in the half-year financial report filed on September 14, 2023, errors occurred related primarily to the amount of certain expenses' line items in the consolidated income statement. Corrections have been implemented in the current release of the half-year financial report, which includes a new Auditor's report replacing initial report dated September 13, 2023.

This semestrial financial report is a translation in English of the official version of the semestrial financial report in French filed with the AMF on September 12, 2023, and available on our website <https://www.esi-group.com/fr>.

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 envisions a world where Industry commits to bold outcomes, addressing high stakes concerns – environmental impact, safety & comfort for consumers and workers, adaptable and sustainable business models. ESI is a pioneer in providing Virtual Prototyping software solutions anchored on predictive physics modeling and its capacity to chain the physics and its solutions to allow industries to make the right decisions at the right time, while managing their complexity. Acting principally in automotive & land transportation, aerospace, energy and heavy industry, ESI is present in close to 20 countries, employs around 900 people globally and reported 2022 sales of €129.7 million at constant perimeter.

1.2. Highlights

During the 1st half of 2023, ESI continued to implement its three-year strategic plan "OneESI 2024 - Focus to Grow", first unveiled in October 2021.

The first major milestone in the plan was achieved in 2022, with an increase in results, the launch of an overhaul of ESI's commercial offering and the refocusing of its business activities, in particular with the sale of a software suite in the field of fluid simulation ("CFD") on July 13, 2022, and of the SCILAB assets on July 27, 2022.

Concentration on core business activities continued in the first half of 2023 with the sale of Systus software and associated engineering services to Framatome, an international player in the nuclear energy sector, announced on April 17, 2023. This activity represented 1.2 million euros in license sales, 3.2 million euros in

associated consulting services sales in 2022, and employed 27 people. The Group has also undertaken the overhaul of its indirect distribution network in Asia during the second quarter of 2023.

In the first 6 months of 2023, the Group reported a further + 1.5% increase in sales (+ 7.0% on constant perimeter and change, taking into account the impact of divestments and currency depreciation, including the Japanese yen), and growth in gross margin and operating income.

On June 28, 2023, Keysight entered into exclusive negotiations with the main shareholders of ESI Group representing 50.6% of its share capital (the "Vendors"), with a view to acquiring by Keysight the entire shareholding of the Vendors (the "Control Block"). Within the framework of these exclusive negotiations resulting from a promise to purchase (the "Promise"), the Transferors benefit from a put option which they may decide to exercise upon completion of the information and consultation procedure with ESI Group's social and economic committee (the "CSE"). The signature of definitive agreements may therefore only take place upon completion of the said information and consultation procedure with the CSE. Completion of the acquisition of the Control Block is also subject to certain regulatory approvals.

The acquisition of the Control Block would be followed by the compulsory filing by Keysight of a public tender offer for the remaining shares issued by ESI Group and, should the 90% thresholds in capital and voting rights be crossed at the end of the Offer, Keysight would request the implementation of a squeeze-out procedure for ESI Group.

On June 28, 2023, ESI Group's Board of Directors unanimously approved the proposed transaction, without prejudice to the reasoned opinion to be issued following submission of the independent expert's report, and subject to completion of the acquisition of the Control Block (see press release of June 29, 2023 available on the Company's website: <http://www.esi-group.com/fr>).

1.3. Revenues and consolidated financial statements

Key figures

Half year closed on June 30, 2023

(€m)	06/30/2023 6m	06/30/2022 6m	Change	Change Constant exchange rate (cer)
Revenue	85.6	84.3	1.5%	3.4%
Licenses	78.2	73.9	5,8 %	7,7%
Services	7.4	10.4	(29.0%)	(27.5%)
Gross Margin	71.3	68.6	3,9 %	5,9 %
% revenue	83.3 %	81.3 %		
Adjusted EBIT ⁽¹⁾	26.5	26.0	1,7 %	1,8 %
% revenue ⁽¹⁾	30.9%	30.9 %		
EBIT	11.2	21.9	(49.0 %)	(49.1 %)
Net result	5.7	13.9	n.s.	n.s.
% revenue	6.7%	16.5 %		
Cash and cash equivalent	63.1	35.4	178.2%	
Net Financial Debt ⁽²⁾	(35.8)	(0.6)		
Gearing (in %) ⁽³⁾	(33.8 %)	(0.7 %)		

(1) Adjusted EBIT and adjusted operating income margin are non-IFRS indicators detailed in paragraph 1.10.

(2) Net financial debt: Financial debts gross value (long term and short term) less cash and cash equivalent. The negative amount indicates that the Group's net cash position is positive.

(3) Gearing: net debt / equity ratio. The negative amount indicates that the Group's net cash position is positive.

Revenue growth and positive momentum on profitability indicators

Half-year revenue rose by 1.5% (+3.4% at constant exchange rates) to €85.6 million. This growth was mainly led by the licenses business at €78.2 million (representing 91% of semester revenue, versus 88% in first-half 2022). Annual Recurring Revenues (excluding perpetual contracts and before deferred revenue) increased by 8.7% (+10.4% cer) to €81.5 million (vs. €75.0 million in first-half 2022). The license renewal rate was 96.4% compared with 93.5% in the first half of 2022. Conversely, sales of perpetual licenses decrease by -42.1% to EUR 3.0 million from EUR 5.2 million in H1 2022. The deferred revenue was stable at EUR -6.3 million (compared to EUR -6.2 million in H1 2022).

Excluding the effects of changes in the scope of consolidation (sale of CFD, discontinuation of activities in Russia and Belarus, sale of Systus) and at constant exchange rates, sales for the first half of 2023 rose by +7.0%, in line with the growth targets communicated by the Group. This performance reflects the success of ESI's strategy, focused on annual license sales.

As a reminder, the Group's sales are highly seasonal, with a concentration in the first quarter of annual license contracts whose validity coincides with the calendar year. As a result, Group sales in the first half of the year are significantly higher than in the second half.

Sales growth was accompanied by controlled cost trends in an inflationary environment. Adjusted EBIT came to €26.5 million (or an adjusted EBIT margin of 30.9%), stable compared with the first half of 2022. Excluding changes in the scope of consolidation (sale of CFD, discontinuation of activities in Russia and Belarus, sale of Systus), and at constant exchange rates, adjusted EBIT rose by 1.3 million euros (+5.3%).

It should be noted that R&D capitalization net of depreciation had an unfavorable impact of -€2.2 million in the first half of 2023 compared with the first half of 2022: it represented an expense of -€0.3 million compared with a net income of +€1.8 million a year earlier, notably due to the refocusing of production on a smaller number of projects (including the disposal of CFD assets in 2022).

Sales in line with the key strengths of the Group

In 2023, the geographical breakdown of half-year revenues has changed slightly compared to the first half of 2022: the EMEA region accounts for 51.7% (compared to 50.2%) of total revenues, Asia 32.2% (compared to 33.7%) and the Americas were stable at 16.0%.

Over the period, licensing revenue was driven by the Automotive industry, with the industrial sector also recording significant growth.

At constant perimeter and change, sales rose in every region compared with the first half 2022.

ESI strengthens its cash position and balance sheet

During the first half of 2023, ESI Group strengthened its balance sheet and recorded strong growth in net cash (available cash less financial debt, excluding the impact of IFRS 16), which stood at 35.8 million euros at June 30, 2023, compared with 0.6 million euros a year earlier.

1.4. Cash-flows

Cash position amounted to €63.1 million as at June 30, 2023, compared with €41.6m at December 31, 2022 and €35.4m at June 30, 2022.

Evolution of cash position between December 31, 2022 and June 30, 2023 is mainly due to:

- Cash flow from operating activities of 31 million euros, compared with 16 million euros in the first half of 2022. The change is mainly due to an improvement in WCR. The change in WCR for the first half of 2022 was -€5.7 million, and took into account short-term cash outflows linked to the restructuring measures announced in October 2021;
- Current capital expenditure of -0.8 million euros, compared with -0.5 million euros in the first half of 2022;
- Financial items, such as the payment of the annual instalment on the syndicated loan (5 million euros) and the quarterly instalments on the State Guaranteed Loan and other borrowings (2.1 million euros), as well as receipts from the sale of Systus and share buybacks.

As of June 30, 2023, ESI Group held 6.23% of its capital in treasury shares.

1.5. Balance sheet

Gross financial debt stood at €27.3 million (versus €34.3 million at December 31, 2022). Net cash (cash and cash equivalents less gross financial debt) increased to €35.8 million (versus €7.3 million at December 31, 2022). This trend is explained by the favorable seasonality of sales and the profitability of activities, the partial receipt of the sale price for the Systus business, and the repayment of loan maturities totaling €7.1 million. Gearing (net financial debt-to-equity) thus stood at -33.8% compared with -0.7% at end of June 2022 and -8.0% at end of December 2022.

1.6. Outlook

The Group intends to continue implementing its strategic repositioning as part of the "OneESI 2024 - Focus to Grow" plan in the second half of 2023 and remains confident in its ability to achieve its communicated multi-year targets.

The procedures for informing and consulting ESI Group's social and economic committee (the "CSE") initiated as part of the exclusive negotiations begun at the end of June between Keysight and ESI Group's main shareholders representing 50.6% of its share capital (the "Transferors" representing the "Control Block") with a view to Keysight's acquisition of their entire stake are continuing. The transaction remains subject to certain regulatory approvals.

1.7. Risk factors

A detailed analysis of the different risk factors can be found in the 2022 Universal Registration Document (filed with the AMF on March 17, 2023, in French) in Chapter 3 "Risks and Risk Management", also available on our website <http://www.esi-group.com>.

In a volatile macroeconomic context, the group remains vigilant but has not identified any additional major risk during the past six months and for the remaining six months of the year.

1.8. Transactions with related parties

The nature of the transactions with related parties has not changed significantly during 2023 first half, as compared to December 31, 2022.

1.9. Information on shareholding

Breakdown of share capital and voting rights as of June 30, 2023:

		Shares number	% capital	Voting rights number	% voting rights
NAME	SURNAME				
DAVERN	Alexander	11,333	0.19%	11,333	0.15%
SOUDAN	Patrice	2,100	0.03%	2,100	0.03%
JACQ	Véronique	157	—%	314	—%
RAMANATHAN	Rajani	1	—%	2	—%
DE BALMANN	Yves	1	—%	2	—%
Board members (registered shares) -non executives & board advisors		13,592	0.22%	13,751	0.18%
DE ROUVRAY	Cristel	253,054	4.16%	506,108	6.60%
ROMEFORT-REGNIER	Corinne	9,802	0.16%	15,270	0.19%
LEFEBVRE	Dominique	7,191	0.12%	7,206	0.09%
ZORGATI	Olfa	5,754	0.09%	5,754	0.07%
BARRE	Florence	104	—%	104	—%
LEROY	Emmanuel	5,000	0.08%	5,000	0.07%
Members of ESI Leadership Team - ELT (registered shares)		280,905	4.61%	539,442	7.03%
Employee shareholders (registered shares)		55,671	0.91%	91,776	1.20%
Public (registered shares)		1,690,677	27.77%	3,359,212	43.79%
Public (bearer shares)		3,667,967	60.25%	3,667,967	47.81%
Public TOTAL		5,354,832	88.02%	7,027,179	91.59%
Treasury shares		379,437	6.23%	0	—%
TOTAL		6,088,249	100.00%	7,672,148	100.00%

Crossing of thresholds:

Since January 1st, 2023 until the filing date of this Half-year Financial Report, the following crossing of thresholds has been declared:

- by letter dated June 30, 2023 from FIL Investments International, a multinational specializing in asset management on behalf of third parties, the latter declares that it has fallen below the legal and statutory threshold of 1.5% of ESI Group's share capital, with 92,844 shares representing 1.53% of shares and 1.15% of voting rights.
- by letter dated July 21, 2023 sent by Caisse des dépôts et consignations, the latter declares that, indirectly via CDC Croissance, it has crossed below the statutory threshold of 2.5% of the company's voting rights. At the same time, CDC Croissance has directly and individually crossed below the same statutory threshold of 2.50% of the Company's voting rights. These threshold crossings resulted from sales of shares on the market by CDC Croissance. CDC now holds, indirectly through CDC Croissance, 200,908 shares and voting rights, representing 3.31% of ESI Group's capital and 2.49% of its voting rights.

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

1.10. Financial information definitions

In line with industry practice, the Group measures sales growth using a key performance indicator (KPI): Annual Recurring Revenue (ARR). This indicator is defined as total sales from license contracts (including maintenance services), excluding sales from perpetual licenses and before changes in deferred sales (see paragraph 1.4.1. of the 2022 Universal Registration Document, available on the Company's website: <http://www.esi-group.com/fr>).

In order to take into account the cessation of operations in Russia in 2022, the sale of assets in the fluid simulation ("CFD") field on July 13, 2022, and the sale of the Systus business on May 2, 2023, the corresponding sales and costs have been excluded from the indicators entitled "constant perimeter".

In analyzing its performance, the Group refers to information and variations at constant exchange rates ("constant rates"), opposite trends at current rates, as multi-year strategic objectives are set at constant rates. Currency effects are restated by calculating current-year aggregates at previous-year exchange rates.

Adjusted EBIT and adjusted EBIT margin are two non-IFRS indicators used by management to assess the Group's operating performance, as defined and presented in its three-year strategic plan (presented for the first time on October 5, 2021). These indicators do not replace IFRS indicators. Adjusted EBIT and adjusted EBIT margin exclude the following items:

- Share-based compensation expenses.
- Restructuring expenses.
- Impairment of intangible assets.
- Amortization of acquisition-related intangible assets.
- Application of IFRS 16 on leases.
- Other non-recurring and special items not related to ordinary operations, including net capital gains and losses on disposals.

(€m)	1 st semester	1 st semester	1 st semester	1 st semester
	2023	2023	2022	2022
	Current perimeter	Constant perimeter	Current perimeter	Constant perimeter
Revenue ⁽¹⁾	85.6	83.3	84.3	79.3
Operational result (EBIT)	11.2	9.8	21.9	19.7
<i>EBIT margin (IFRS) in % of revenue</i>	13.1%	11.8%	26.0%	24.8%
• application of IFRS 16	(0.2)	(0.2)	(0.1)	(0.1)
EBIT before IFRS 16	11.0	9.6	21.8	19.6
• Restructuring costs	0.1	0.1	1.5	1.5
• Other operating income and expenses	12.8	12.8	-	-
• Stock-based compensation expenses ⁽²⁾	2.5	2.5	1.9	1.9
• Amortization of intangible assets related to acquisitions	0.1	0.1	0.8	0.8
Adjusted EBIT	26.5	25.1	26.0	23.8
<i>Adjusted EBIT margin in % of revenue</i>	30.9%	30.1%	30.9%	30.0%

(1) Of which Annual Recurring Revenue (ARR) at current perimeter: €81.5m in 2023 and €75,0 m in 2022 (cf. 1.10 definition)

(2) Data published for H1 2022 for share-based compensation have been restated to include the associated social security contributions (€0.4 million), in line with the methodology applied for the year ended December 31, 22.

2. INTERIM FINANCIAL STATEMENTS

Since July 1, 2022, the group has concluded the asset divestment linked with a series of non-strategical softwares for fluid simulation (CFD – July 2022), stopped its activities in Russia and sold Systus business (May 2023 – cf note 2). The incidence of these operations on key indicators of profit and loss account and balance sheet being not relevant (contributions of €5.0 million on the turnover on first semester 2022 and €2.3 million on the same period of 2023), no pro forma account has been established.

2.1. Consolidated income statement

Half year closed on June 30, 2023

(In € thousands)	Note	Half year closed June 30, 2023	Half year closed June 30 2022	December 31, 2022
Licenses and maintenance		78,206	73,928	113,957
Consulting		7,257	9,917	18,648
Other		128	481	1,313
Revenue	4.1.	85,593	84,325	133,918
Cost of sales		(14,309)	(15,727)	(27,685)
Research and development costs	5.2	(16,774)	(15,712)	(36,112)
Selling and marketing expenses		(16,667)	(16,849)	(33,526)
General and administrative expenses		(14,018)	(12,588)	(23,942)
Current operating result		23,825	23,449	12,651
Other operating income and expenses	2	(12,637)	(1,518)	12,791
Operating result		11,188	21,931	25,442
Financial result	6.2	(1,934)	778	(1,312)
Share of profit of associates		(310)	(423)	99
Income before income tax expense and minority interests		8,944	22,285	24,229
Provision for income tax	7.1	(3,245)	(8,332)	(8,835)
Net income before minority interests		5,698	13,953	15,395
Non-Controlling interests		(1)	(20)	(26)
NET INCOME (GROUP SHARE)		5,697	13,933	15,421
Earnings per share (in €)		1.97	4.87	2.69
Diluted earnings per share (in €)		1.89	4.55	2.63

Statement of comprehensive income

(In € thousands)	Half year closed June 30, 2023	Half year closed June 30 2022	December 31, 2022
Net income before minority interests	5,698	13,953	15,395
Other comprehensive income recycled to income			
Change in the fair value of hedging instruments	(3)	(7)	139
Translation differences	29	376	(433)
Other comprehensive income (loss) not recycled to income	0		
Actuarial gains and losses	0	1,388	1,825
Income and expenses recorded directly in equity	26	1,758	1,532
COMPREHENSIVE INCOME	5,724	15,711	16,927
Attributable to Group equity holders	5,723	15,520	16,950
Attributable to non-controlling interests	1	20	(24)

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

2.2. Balance sheet

Half year closed on June 30, 2023

(In € thousands)	Note	Half year closed June 30 2023	December 31, 2022	Half year closed June 30 2022
Assets				
Non-current assets		103,730	109,701	111,806
Goodwill	3.1	38,446	39,236	39,376
Intangible assets	5.1	32,512	33,154	35,389
Property, plant and equipment		3,706	4,100	3,479
Rights-of-use assets		9,982	12,483	15,197
Equity in net earnings of affiliated companies		597	961	478
Deferred tax assets	7.2	14,574	13,438	14,062
Other non-current assets		2,846	6,123	3,066
Cash-flow hedging instruments		1,067	205	759
Current assets		112,663	90,089	90,947
Trade receivables	4.1	31,835	37,142	36,993
Other current receivables		13,390	7,585	6,442
Prepaid expenses		4,324	3,763	3,392
Cash and cash equivalents		63,115	41,599	35,407
Assets held for sale		—	—	8,713
TOTAL ASSETS		216,393	199,789	202,753
Liabilities				
Equity		95,402	90,004	89,235
Equity (Group share)		95,399	90,002	89,128
Capital		18,227	18,227	18,192
Additional paid-in capital		27,318	27,318	26,986
Reserves and retained earnings ^(b)		43,923	28,831	29,064
Net income (loss)		5,697	15,421	13,933
Translation differences		234	205	953
Non-controlling interests		3	2	107
Non-current liabilities		29,640	38,739	45,393
Non-current share of financial debt	6.1	15,657	22,846	26,706
Non-current lease obligation		6,221	8,240	10,368
Provision for employee benefits		6,517	6,713	7,310
Deferred tax liabilities	7.2	—	—	187
Cash-flow hedging instruments		—	34	13
Other long-term debt and provisions		1,245	905	809
Current liabilities		91,351	71,046	68,125
Current share of financial debt	6.1	11,640	11,439	8,125
Current lease obligation		3,482	3,896	4,502
Trade payables		5,427	6,859	4,703
Accrued compensation; taxes and others current liabilities		50,942	30,274	24,382
Current provisions		2,024	2,528	5,996
Contract liabilities		17,836	16,050	20,339
Liabilities associated with assets held for sale		—		78
TOTAL LIABILITIES		216,393	199,789	202,753

2.3. Consolidated statement of changes in equity

<i>(In € thousands except number of shares)</i>	Number of shares	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, 2020 restated	6,036,592	18,110	26,280	43,587	(502)	87,472	82	87,554
Change in fair value of hedging instruments				7		7		7
Translation differences					1,167	1,167	3	1,170
Actuarial gains and losses				877		877	(1)	876
Income and expenses recognized directly in equity				884	1,167	2,051	2	2,053
Restated Net income ⁽¹⁾				(18,575)		(18,575)	(10)	(18,585)
Comprehensive income				(17,691)	1,167	(16,524)	(8)	(16,532)
Proceeds from issue of shares	27,549	83	705			788		788
Treasury shares				(84)		(84)		(84)
Share-based payments				681		681		681
Transactions with non-controlling interests				(150)	(51)	(201)	12	(189)
Other movements				34	(37)	(3)		(3)
At December 31, 2021 restated	6,064,141	18,192	26,986	26,377	577	72,129	86	72,215
Change in fair value of hedging Instruments				139		139		139
Translation differences					(435)	(435)	2	(433)
Actuarial gains and losses				1,825		1,825		1,825
Income and expenses recognized directly in equity				1,964	(435)	1,529	2	1,532
Net income				15,421		15,421	(26)	15,395
Comprehensive income				17,385	(435)	16,950	(24)	16,927
Proceeds from issue of shares	11,475	34	333			367		367
Treasury shares				(2,192)		(2,192)		(2,192)
Share-based payments				3,031		3,031		3,031
Transactions with non-controlling interests (a)				(290)	3	(287)	(60)	(347)
Other movements				(56)	60	3		3
At December 31, 2022	6,075,616	18,227	27,318	44,255	205	90,002	2	90,004
Change in fair value of hedging Instruments				(3)		(3)		(3)
Translation differences					29	29		29
Income and expenses recognized directly in equity				(3)	29	26		26
Net income				5,627		5,697	1	5,698
Comprehensive income				5,694	29	5,723	1	5,724
Treasury shares				(2,250)		(2,250)		(2,250)
Share-based payments				1,923		1,923		1,923
AT JUNE 30, 2023	6,075,616	18,227	27,318	49,622	234	95,398	3	95,402

2.4. Consolidated statement of cash flows

<i>(In € thousands)</i>	Half year close June 30, 2023	Half year closed June 30 2022	December 31, 2022
Net income before minority interests	5,698	13,953	15,395
Share of profit of associates	310	423	(99)
Amortization and provisions (1)	3,060	3,462	3,799
Net impact of capitalization of research & development costs	331	(1,827)	(124)
Income taxes (current and deferred)	3,245	8,332	8,835
Income taxes paid	(5,692)	(2,801)	(2,943)
Unrealized financial gains and losses	565	(1,513)	(899)
Share-based payment transactions	1,923	1,458	3,031
Gains (losses) on sales and disposal of assets	(6,249)	106	(15,911)
Operating cash flow	3,191	21,593	11,084
Trade receivables	3,188	(71)	(345)
Trade payables	(1,400)	(516)	1,063
Other receivables and other liabilities	25,716	(5,151)	(4,550)
Change in working capital requirement	27,504	(5,737)	(3,832)
Net cash from operating activities	30,695	15,856	7,251
Purchase of intangible assets	(457)	(182)	(300)
Purchase of property, plant and equipment	(314)	(314)	(1,614)
Proceeds from the sale of assets (2)	4,786	—	20,993
Other investment operations	(221)	(5)	277
Net cash used for investing activities	3,794	(501)	19,356
Proceeds from loans	—	133	365
Repayment of borrowings and lease debt (1)	(9,421)	(10,789)	(13,896)
Proceeds from issue of shares	—	—	367
Purchase and proceeds from disposal of treasury shares	(2,250)	(122)	(2,192)
Purchase of non-controlling interests	(350)	—	—
Net cash used for financing activities	(12,021)	(10,778)	(15,356)
Effect of exchange rate changes on cash and cash equivalents (3)	(955)	511	28
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,512	5,088	11,279
Opening cash position	41,599	30,319	30,319
Closing cash position	63,115	35,407	41,599
NET CHANGE IN CASH AND CASH EQUIVALENTS	21,517	5,088	11,279

(1) The impact of IFRS 16 for 2023 first half is an increase of +€2.4m in the amortization and provision (against +€2.6m in H1 2022) 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 -€2.4m (versus -€2.6m in the first half 2022).

(2) Mainly corresponds to proceeds from the Systus disposal (see note 2).

(3) Mainly corresponds to currency effects on cash and cash equivalents in foreign currencies.

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 12, 2023.

Note 1.2. Accounting standards applied

ESI Group's half-year consolidated accounts as of June 30, 2023 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, 2022. The new standards, interpretations and amendments that are mandatory for financial years beginning on or after January 1, 2023 had no impact on the Group's consolidated financial statements, in particular the amendments to IAS 8 and 12. The new standards, interpretations and amendments that are mandatory for financial years beginning on or after January 1, 2024 have not been early adopted by the Group (in particular, the amendments to IAS 1 and IFRS 16).

As from January 2023, as part of the consolidation software upgrade, sales and income and expenses of foreign subsidiaries are translated at the average monthly rate (previously, they were translated at the average cumulative rate for the period).

The interim 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

The preparation of the consolidated financial statements requires the consideration of estimates and assumptions established by Group's management that have an impact on the valuation of assets and liabilities, as well as on the amounts recorded as income or expenses throughout the half year.

The estimates relate, in particular, but not exclusively, to the assumptions used in determining the impact of stock options and free shares allocated to certain employees, business combinations, revenue recognition, depreciation of fixed assets (including capitalized development costs), the estimated life of fixed assets, the useful life of intangible assets acquired in business combinations, the valuation of deferred tax assets, provisions for depreciation of trades receivables, income tax expense, provisions for risks and litigation and provisions for post-employment benefits.

Note 2. Significant events for the first half-year

Exclusive negotiations for the sale of a controlling interest

On June 28, 2023, Keysight entered into exclusive negotiations with the main shareholders of ESI Group representing 50.6% of its share capital (the "Transferors"), with a view to Keysight acquiring the entire shareholding of the Transferors (the "Control Block"). Within the framework of these exclusive negotiations resulting from a promise to purchase (the "Promise"), the Transferors benefit from a put option which they may decide to exercise upon completion of the information and consultation procedure with ESI Group's social and economic committee (the "CSE"). The signature of definitive agreements may therefore only take place upon completion of the said information and consultation procedure with the CSE. Completion of the acquisition of the Control Block is also subject to certain regulatory approvals.

The acquisition of the Control Block would be followed by Keysight filing a mandatory tender offer for the remaining shares issued by ESI Group, and should the 90% thresholds in capital and voting rights be crossed at the end of the Offer, Keysight would request the implementation of a squeeze-out procedure for ESI Group. On June 28, 2023, ESI Group's Board of Directors unanimously approved the proposed transaction, without prejudice to the reasoned opinion to be issued following submission of the independent expert's report, and subject to completion of the acquisition of the Control Block.

Expenses incurred for services rendered by the Group's advisors in connection with this transaction have been recognized in other operating income and expenses.

Financial consequences of the strategic plan - other operating income and expenses

In 2023, the Group is pursuing its growth and profitability plan "OneESI 2024 - Focus to Grow".

As part of this plan, the Group has sold its Systus software and related activities. ESI has also undertaken to overhaul its indirect distribution network in Asia during the second quarter of 2023.

The net result of the Systus disposal, as well as a provision for risks related to the commercial reorganization in Asia and a provision for consulting fees in connection with the planned shareholding transactions, amount the other operating income and expenses of €-12.6 million.

Financing

During the first half of 2023, ESI Group repaid the annual instalment of the syndicated loan of €5 million, leaving an outstanding balance of €10 million. The Group also repaid quarterly instalments on state-guaranteed loans and other borrowings for a total of €2.1 million. The revolving credit facility was not used during the half-year.

The Group's syndicated credit agreement provides for mandatory prepayments in the event of asset disposals within six months of the disposal date. A waiver was obtained in the second half of 2022 in respect of disposals carried out in 2022 and 2023.

The Group's main financing contracts also provide for early repayment clauses in the event of a change of control; a waiver request would be made if the planned transaction with Keysight were to materialize.

Note 3. Scope of consolidation

Note 3.1. 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 30, 2023	December 31, 2022	June 30, 2022
Fully consolidated entities					
Engineering System International	April 1973	Rungis, France	100 %	100 %	100 %
Engineering System International GmbH	July 1979	Neu-Isenburg, Germany	— %	— %	100 %
ESI Japan, Ltd.	July 1991	Tokyo, Japan	100 %	100 %	100 %
ESI North America, Inc.	March 1992	Farmington, Michigan, United States	100 %	100 %	100 %
Hankook ESI Co., Ltd.	September 1995	Seoul, South Korea	100 %	100 %	100 %
ESI Group Hispania s.l.	February 2001	Madrid, Spain	100 %	100 %	100 %
Mecas ESI s.r.o.	May 2001	Plzen, Czech Republic	100 %	100 %	95 %
ESI UK Ltd.	January 2002	Londres, England	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 %
ESI-ATE Holdings Ltd.	July 2006	Hong Kong, China	— %	— %	100 %
ESI South America Comércio e Serviços de Informatica, Ltda	June 2008	São Paulo, Brazil	100 %	100 %	100 %
ESI Italia s.r.l.	September 2008	Bologna, Italy	100 %	100 %	100 %
ESI Services Tunisie SARL	April 2009	Tunis, Tunisia	100 %	100 %	100 %
ESI Group Beijing Co., Ltd.	October 2010	Beijing, China	100 %	100 %	100 %
ESI Germany GmbH	August 2011	Stuttgart, Germany	100 %	100 %	100 %
ESI Nordics AB	December 2011	Göteborg, 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 %
ITI GmbH	January 2016	Dresde, Germany	— %	— %	100 %
Entities accounted for using the equity method					
JV AECC-ESI (Beijing) Technology Co., Ltd.	February 2014	Beijing, China	35%	35%	35%

On January 6, 2023, On January 6, 2023, ESI Vietnam went into liquidation. This process was still in progress at June 30, 2023.

Note 3.2. Changes in Goodwill

(In € thousands)	December 31, 2022	Increase	Decrease	Other movement	Foreign exchange gain/loss	June 30, 2023
Gross values	39,236	—	(694)	—	(96)	38,446
TOTAL NET VALUES	39,236	—	(694)	—	(96)	38,446

The decrease in goodwill recognized in the first half of 2023 results from the disposal of the Systus business. Management has not identified any indicator of impairment of goodwill and intangible assets as of June 30, 2023.

Note 4. Operating data

Note 4.1. Revenue

<i>(In € thousands)</i>	Half year closed June 30, 2023	Half year closed June 30, 2022	December 31, 2022
Total licenses and maintenance	78,206	73,928	113,957
Consulting	7,257	9,917	18,648
Other revenue	128	481	1,313
Total services	7,385	10,398	19,961
CONSOLIDATED REVENUE	85,593	84,325	133,918

As a reminder, the Group's sales show a marked seasonal pattern, with a concentration in the first quarter of annual license contracts whose validity coincides with the calendar year. As a result, Group sales in the first half of the year are significantly higher than in the second half.

At June 30, 2023, trade receivables amounted to 31.8 million euros, including 36.2 million euros in gross receivables and -4.3 million euros in write-downs. At December 31, 2022, trade receivables stood at 37.1 million euros, including 41.5 million euros in receivables at gross value and -4.4 million euros in write-downs.

Note 4.2. Information by geographic area

Revenue is split between regions where it is actually produced.

<i>(in € thousands)</i>	Europe, Middle-East	Asia-Pacific	Americas	Eliminations	Consolidated
HALF-YEAR ENDED JUNE 30, 2023					
External clients	44,227	27,634	13,732	0	85,593
Affiliate companies	73,686	4,813	6,225	(84,723)	
NET SALES	117,913	32,447	19,957	(84,723)	85,593
ASSETS ALLOCATED	254,413	56,867	13,905	(108,792)	216,393
FISCAL YEAR ENDED DECEMBER 31, 2022					
External clients	62,148	49,653	22,116	0	133,918
Affiliate companies	78,081	293	1,213	(79,587)	0
NET SALES	140,229	49,946	23,329	(79,587)	133,918
ASSETS ALLOCATED	236,311	52,155	15,658	(104,336)	199,789
HALF-YEAR ENDED JUNE 30, 2022					
External clients	42,371	28,455	13,500	0	84,325
Affiliate companies	58,303	(2,329)	981	(56,956)	0
NET SALES	100,673	26,126	14,481	(56,956)	84,325
ASSETS ALLOCATED	238,340	55,384	19,783	(110,755)	202,752

Note 4.3. Personnel costs

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

<i>(In € thousands)</i>	Half year closed June 30, 2023	Half year closed June 30 2022	Full year closed Dec. 31, 2022
Salaries	(32,222)	(34,694)	(66,313)
Payroll taxes	(8,628)	(9,408)	(18,915)
Share-based payments (*) (**)	(1,923)	(1,458)	(3,031)
Post-employment benefits (***)	(305)	(268)	(427)
TOTAL PERSONNEL COSTS	(43,708)	(44,828)	(88,686)

(*) Share-based payment expenses are recorded in full as general administrative expenses.

(**) Gross amounts, excluding social security charges.

(***) Pension reform in France in the first half of 2023 had no significant impact on the Group's financial statements.

Note 5. Intangible assets

Note 5.1. Change in intangible assets

<i>(In € thousands)</i>	December 31, 2022	Increase	Decrease	Foreign exchange gain/loss	Other movements	June 30, 2023
Gross values						
Development costs	55,746	12,389	(1,187)	—	—	66,947
Acquired codes	7,563	—	—	—	—	7,563
Other intangible assets	15,513	314	(1,166)	(46)	137	14,752
TOTAL	78,823	12,703	(2,354)	(46)	137	89,262
Amortization						
Development costs	(25,112)	(12,720)	561	3	—	(37,268)
Acquired codes	(6,282)	167	—	—	—	(6,115)
Other intangible assets	(14,275)	(360)	1,151	43	74	(13,439)
TOTAL	(45,669)	(12,913)	1,712	46	74	(56,750)
Net carrying amounts						
Development costs	30,635	(331)	(626)	3	—	29,679
Acquired codes	1,280	167	—	—	—	1,448
Other intangible assets	1,237	(46)	(15)	(3)	211	1,385
TOTAL	33,153	(210)	(642)	0	211	32,512

Decrease in net book value of Development costs is mainly linked to the divestiture of Systus assets.

<i>(In € thousands)</i>	December 31, 2021 restated	Increase	Decrease	Foreign exchange gain/loss	Other movements	December 31, 2022
Gross values						
Development costs	62,310	24,807	(31,371)	—	—	55,746
Acquired codes	14,082	—	(4,985)	—	(1,535)	7,565
Other intangible assets	13,586	300	(143)	219	1,552	15,513
TOTAL	89,979	25 107	(36,499)	219	17	78,823
Amortization						
Development costs	(30,232)	(23,958)	29,079	—	—	(25,112)
Acquired codes	(6,274)	(745)	623	—	113	(6,282)
Other intangible assets	(12,988)	(1,054)	98	(219)	(113)	(14,275)
TOTAL	(49,494)	(26)	29,800	(219)	—	(45,669)
Net carrying amounts						
Development costs	32,080	849	(2,292)	—	—	30,636
Acquired codes	7,808	(745)	(4,362)	—	(1,422)	1,280
Other intangible assets	598	(754)	(45)	—	1,439	1,237
TOTAL	40,487	(650)	(6,698)	—	17	33,154

Note 5.2. Research and development costs

<i>(In € thousands)</i>	Half year closed June 30, 2023	Half year closed June 30 2022	December 31, 2022
Development costs capitalized during the period	12,389	13,248	24,082
Development costs amortized during the period	(12,720)	(11,421)	(23,958)
NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS	(331)	1,827	124

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

<i>(In € thousands)</i>	Half year closed June 30, 2023	Half year closed June 30 2022	December 31, 2022
R&D costs incurred during the period ^(a)	(17,565)	(18,057)	(37,915)
Development costs capitalized during the period	12,389	13,248	24,082
Development costs amortized during the period	(12,720)	(11,421)	(23,958)
French R&D tax credit	1,000	1,125	2,582
Amortization of codes acquired in business combinations	122	(607)	(903)
TOTAL R&D COSTS RECOGNIZED AS EXPENSES DURING THE FINANCIAL YEAR	(16,774)	(15,712)	(36,112)

Note 6. Financing

Note 6.1. Gross financial debt

Detail and maturity of financial debt at June 30, 2023

<i>(In € thousands)</i>	Maturity at June 30					Total
	1 year	2 years	3 years	4 years	5 years and more	
Syndicated loan	4,973	4,973	—	—	—	9,945
Short-term revolving loan	—	—	—	—	—	—
State-guaranteed loans	3,438	3,438	3,438	1,609	—	11,922
Other bank borrowings	2,375	800	400	—	—	3,575
Repayable advances and other financial debts	854	127	230	241	401	1,853
TOTAL	11,640	9,338	4,068	1,850	401	27,297
	CURRENT: 11,640			NON-CURRENT: 15,657		

During the first half of 2023, the Group repaid the annual instalment on the syndicated loan (€5 million) and the quarterly instalments on the state guaranteed loan and other loans (€2.1 million).

Note 6.2. Financial income and expenses

<i>(In € thousands)</i>	Half year closed June 30, 2023	Half year closed June 30 2022	December 31, 2022
Interest and related expenses on borrowings	(696)	(347)	(666)
Interest income	183	15	91
Foreign exchange gain/(loss)	(767)	1,355	298
Interest for provisions for employee benefits	(147)	(113)	(86)
Interest for rights-of-use assets	(203)	(77)	(467)
Other financial expenses	(305)	15	(482)
FINANCIAL RESULT	(1,934)	778	(1,312)

Note 7. Tax

Note 7.1. Income tax expense

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

<i>(In € thousands)</i>	Half year closed June 30, 2023	Half year closed June 30 2022	December 31, 2022
Current taxes	(4,531)	(4,424)	(4,651)
Deferred taxes	1,286	(3,908)	(4,184)
TOTAL	(3,245)	(8,332)	(8,835)

Half year income tax cost has been computed based on 2023 Effective Tax Rates expected by tax consolidation perimeter.

Note 7.2. Deferred tax

Breakdown of deferred taxes by tax base:

<i>(In € thousands)</i>	Half year closed June 30, 2023	Half year closed June 30 2022	December 31, 2022
Deferred tax assets			
Tax loss carryforwards	11,490	8,609	8,750
Temporary differences related to tax treatment of maintenance	904	988	988
Provisions for employee benefit commitments	1,559	1,953	1,593
Temporary differences related to personnel	108	87	
Provisions and other adjustments	791	2,412	2,134
Offset of deferred tax assets/liabilities*	(278)	13	(26)
Total deferred tax assets	14,574	14,062	13,438
Deferred tax liabilities			
Amortization of acquired intangible assets		(91)	(25)
Excess depreciation			(357)
Other adjustments	(278)	(83)	355
Offset of deferred tax assets/liabilities	278	(13)	26
Total deferred tax liabilities	—	(187)	—
NET DEFERRED TAX	14,574	13,875	13,438

Note 8. Subsequent events

ESI has terminated the indirect distribution contract for its products in China, with effect from August 25, 2023.

3. STATUTORY AUDITORS' REVIEW

REPORT ON THE 2023 HALF-YEARLY FINANCIAL INFORMATION

KPMG Audit
KPMG S.A department
Tour Eqho
2, avenue Gambetta
92066 Paris-La Défense
S.A. au capital de € 5 497 100
775 726 417 RCS Nanterre
Statutory auditor
Member of the regional
company of Versailles and of Centre

ERNST & YOUNG Audit
Tour First
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 on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. 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 standards applicable in France.

ESI Group

Period from January 1 to June 30, 2023

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

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, and in accordance with the requirements 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, 2023,
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements were approved by the Board of Directors on September 12, 2023. We issued a first report, dated September 13, 2023, in which we expressed a conclusion on these financial statements. When inserting the accounts in the half-year financial report, an error occurred related primarily to the amount of certain expenses' line items in the consolidated income statement which is attached to our report dated September 13, 2023. This material error has been corrected

by the Company and a new half-year financial report was filed. As a consequence we have issued a new report, which replaces our initial report dated September 13, 2023.

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 21, 2023,

The Statutory Auditors
French original signed by

KPMG Audit
Département de KPMG
S.A

ERNST & YOUNG Audit

Stéphanie Ortéga

Pierre-Henri Pagnon

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.”

Rungis, September 21, 2023

Cristel de Rouvray

Chief Executive Officer of ESI Group