ESI Group

French limited company with a share capital of EUR 17 975 976
Head quarter office: 100/102 Avenue de Suffren, 75015 Paris
Paris Trade and Company Register (RCS) number 381 080 225

2017 Half-year financial report

As of July 31, 2017

First half of 2017 fiscal year, which ends January 31, 2018

Content

1 MANAGEMENT REPORT

Preamble:

The financial information below presents the activity and the financial statements of ESI Group and its subsidiaries, together referred to as “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 entire 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.

Present in more than 40 countries, and addressing every major industrial sector, ESI Group employs about 1200 high-level specialists around the world.

The Group ESI, founded in 1973, has for parent company ESI Group, French limited and listed company, registered in France and governed by the provisions of French law. Created in 1991, ESI Group incorporates the software publishing activity of the Group as well as the marketing and consulting activities, distributed across the world. The company’s headquarters (ESI Group and its subsidiaries) 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.

1.2. Revenues and consolidated financial statements

Consolidated half year results

Half year closed on July 31

In € millions	H1-FY 17	H1-FY 16	Δ at current exchange rates
Total sales	**53.7**	**56.0**	**-4.0%**
Licenses	39.0	40.2	-2.8%
Services	14.7	15.8	-6.9%
Grosse margin	**36.2**	**39.1**	**-2.9 (-7.4 %)**
% of sales	*67.3%*	*69.8%*	
EBITDA*	**-3.9**	**-0.3**	**-3.5**
% of sales	*-7.3%*	*-0.6%*	
Current Operating Profit	**-5.5**	**-1.8**	**-3.6**
% of sales	*-10.1%*	*-3.3%*	
EBIT	**-6.0**	**-2.8**	**-3.2**
% of sales	*-11.3%*	*-5.1%*	
Attributable net profit/loss	**-5.9**	**-3.5**	**-2.4**
% of sales	*-11.0%*	*-6.2%*	
Available cash	**14.8**	**19.3**	**-4.5**

These figures were approved by the Board of Directors' meeting held on Monday, September 18, 2017.

(*) EBITDA excludes non-recurring items and includes the net impact of development costs capitalization and provisions/reversals for impairment of trade receivables.

Acquisition during the period: "Scilab Enterprises" was consolidated from February 28, 2017.

NB: because of strong seasonal variations, ESI Group's Licenses business recognizes a big part of its annual revenue in the 4th quarter of the year. The Group's financial year ends on January 31.

Changes in revenue by quarter

In € millions	Q1 2017 ended April 30	Q1 2016	% chg.	% chg. (cer*)	Q2 2017 ended July 31	Q2 2016	% chg.	% chg. (cer*)
Licenses	20.1	19.5	**+2.7%**	*0.1%*	19.0	20.6	**-8.1%**	*-6.6%*
Services	7.3	7.9	**-7.4%**	*-9.1%*	7.4	7.9	**-6.5%**	*-5.2%*
Total	**27.3**	**27.4**	**-0.2%**	*-2.6%*	**26.4**	**28.6**	**-7.6%**	*-6.2%*

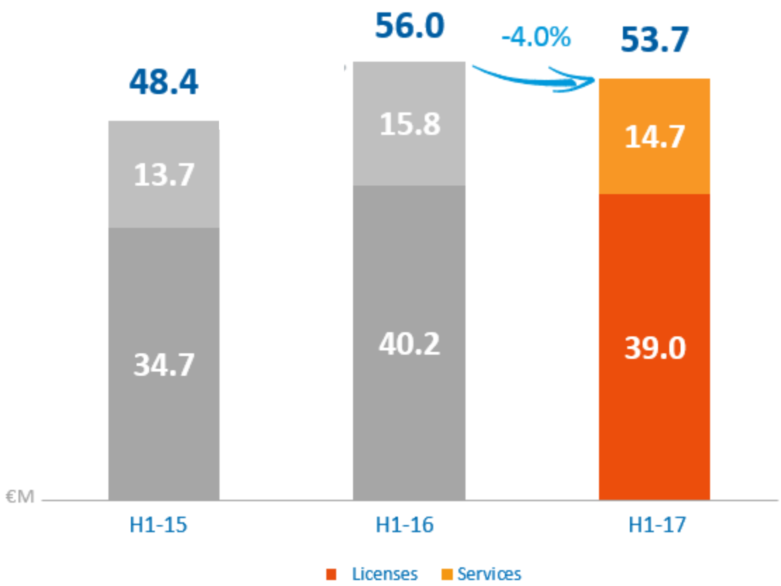
* cer: at constant exchange rates

First half 2017 revenues

H1 total revenues - First-half 2017 sales came in at €53.7 million, down 4.0%. Sales driven by the change of perimeter amounted to €0.3 million, and correspond to the acquisition of Scilab Enterprises in February 2017. There was a mild positive currency effect of €0.2 million for the period, the favorable effect from the US dollar and Korean won partially offset by the negative impact of movements in sterling and the Japanese yen.

This decrease reflects both the base effect following the exceptional performance in H1 2016, and the impact of the transformation phase on both existing and new business.

The product mix remained stable year-on-year, Licenses contributed 73% of total sales, compared with 72% in the prior period.



H1 Licenses - Licenses revenue declined by 2.8% year-on-year to €39.0 million. Most of this decline concerned the sale of perpetual licenses (PUL) in H1 2016 and does not reflect a recurring issue in the install base.

H1 Services - Services revenue was down by 6.9% to €14.7 million. It should be recalled that Services grew by 15.4% in H1 2016 due to a cyclical and exceptional performance of Japan.

H1 Geographical mix - ESI's geographic sales mix reflects a relative performance of global activity on the semester, better in Europe (up 2.8%) than in the Americas (down 2.4%) and Asia (down 10.3%).

First half 2017 results

Gross margin

Gross margin came in at 67.3%, compared to 69.8% in H1 2016. This lower figure was mainly due to an unfavorable product mix within the Services activity.

Continued strategic investment in R&D

In accordance with the Group's strategy of investing in cutting-edge technology, R&D investment has been pursued at a high level. R&D expenditure rose 9.0% to €16.9 million (excluding the French Research Tax Credit 'CIR'), reflecting ESI's constant focus on the emerging technologies that underpin its disruptive PPL approach. These investments represent 43.4% of Licensing revenue (amplified by the strong seasonality effect). However, once the Research Tax Credit and net impact of development costs capitalization are taken into account, total R&D costs recorded in the P&L amounted to €13.5 million, an increase of 3.4%.

Profitability indicators impacted by investment

EBITDA was a negative €3.9 million, compared to a negative €0.3 million in H1 2016. This decline reflects a continuation of the R&D investments and a 3.1% increase in Sales & Marketing (S&M) costs which represent on the semester 36.3% of total sales. General and Administrative (G&A) costs dropped by 3.5% year-on-year and represented 16.1% of total sales.

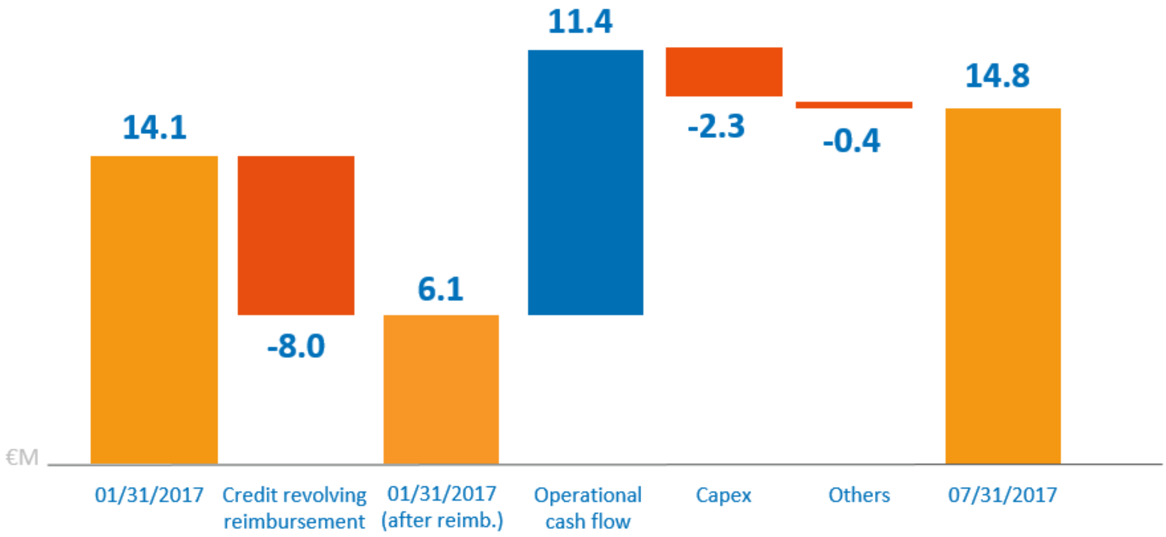
As a result of the decline in EBITDA, the Group reported a current operating loss of €5.5 million and negative EBIT of €6.0 million, down by €3.6 million and €3.2 million, respectively, on H1 2016. The Financial Result remained stable year-on-year at negative €1.6 million and the Group's attributable let loss for the period was €5.9 million, compared to a loss of €3.5 million for prior period.

It should be recalled that these financial results reflect traditionally the strong seasonality of Licensing revenue, lower on the first semester.

1.3. Cash-flows

Available cash amounts to €14.8 million at July 31, 2017 versus €19.3 million at July 31, 2016 and €14.1 million at January 31, 2017.

Restated from the €8 million repayment of the revolving credit used at end 2016, cash-flow over the period is positive and amounts to €8.7 million, to be compared with €16.9 million on 2016 first half.



Excluding currency effects, this variation is mainly due to:

- A positive operational cash-flow of €11.4 million: despite a negative WCR due to EBITDA seasonality, the WCR variation allows a positive operational cash-flow. Trade receivables reach highest level at the end of the fiscal year, thus related cash collection during next first half historically ensures decreasing WCR at mid-year.
- A level of capital expenditures of €2.3 million versus €0.9 million in 2016 first half, increase mostly due to the move in new offices in Japan.
- Acquisition of minority interests in Italy for € 0.4 million with no use of external financing.

1.4. Balance sheet

Net debt stood at €28.6 million at July 31, 2017. The gearing (debt-to-equity) ratio was 30.4%.

1.5. Significant events of the period

During the 2017 first half, ESI Group acquired 100% interest in the French company Scilab Enterprises, on February 24, 2017. The operation has been financed mainly by the transfer of some ESI Group treasury shares to the shareholders of Scilab Enterprises.
The Group also bought back outstanding minority interest in its subsidiary ESI Italia, which it now wholly owns.

1.6. Outlook

In the wake of 2016, which featured fine performances across all indicators and the consolidation of a number of new acquisitions, we have ramped up our five-year strategic transformation plan – “Objective 2020” – designed to keep pace with the economic and industrial trends of the new “Outcome Economy”. Within this context of deep transformation, our ongoing drive to adapt our operational resources in H1 2017 took its toll on results for the period, which also suffered from a prior-period comparable basis. Priority was given to investments initiated in the first quarter of the year to provide support for the launch of our disruptive ‘PPL’ (Product Performance Lifecycle™) approach. The Group’s new solutions are based on the shift of Virtual Prototyping towards a connected Hybrid Twin™; making it possible, for example, to provide virtual support for predictive maintenance, as well as for production control and assisted or autonomous driving. Our solutions are tackling the key challenges of the Industry of the Future by providing businesses with complete control over a product's entire lifecycle, from design to ultimate withdrawal, through manufacturing of the new product and operational maintenance of the used product that factors in the consequences of wear and tear, including repair of the damages sustained while in service.
This in-depth transformation in our offering is expected to last for several quarters. But thanks to the compelling investments, the deployment of Hybrid Twin™ solutions should enable the Group to reap the benefits of the exceptional innovation and growth potential inherent in this new – technologically and economically – "disruptive" positioning.

1.7. Risk factors

A detailed analysis of the different risk factors can be found in the 2016 Registration Document (registered by the AMF on May 19, 2017) in the section 1.6 « Risk factors ».
The Group has not identified other risk factors over the period.

1.8. Transactions with related parties

The nature of the transactions with related parties has not changed materially during the first half of 2017, as compared to January 31, 2017.

1.9. Information on shareholding

Breakdown of share capital and voting rights as of July 31, 2017:

	Number of shares	% of capital	Number of voting rights	% of voting rights
Family de Rouvray	1 824 390	30.37%	3 619 430	46.24%
Succession Dubois Jacques	386 890	6.44%	771 580	9.86%
FOUNDING GROUP SUB-TOTAL (registered shares)	**2 211 280**	**36.81%**	**4 391 010**	**56.10%**
Chaillou Vincent	16 197	0.27%	28 893	0.37%
des Isnards Charles-Helen	3 751	0.06%	6 552	0.08%
d'Hotelans Éric	1 589	0.03%	2 928	0.04%
Jacq Véronique	61	0.00%	61	0.00%
Ramanathan Rajani	1	0.00%	1	0.00%
de Balmann Yves	1	0.00%	1	0.00%
MEMBERS OF THE BOARD OF DIRECTORS (EXCL. FOUNDERS) (registered shares)	**21 600**	**0.36%**	**38 436**	**0.49%**
Public (registered shares)	93 105	1.55%	124 159	1.59%
Public (bearer shares)	3 274 019	54.50%	3 274 019	41.83%
PUBLIC SUB-TOTAL	**3 367 124**	**56.05%**	**3 398 178**	**43.41%**
Treasury shares	406 988	6.78%	-	0.00%
TOTAL	**6 006 992**	**100.00%**	**7 827 624**	**100.00%**

The company has no knowledge of any other shareholders holding directly or indirectly, alone or in concert, 5% or more of the share capital or voting rights.

Declaration of the shares movements leading to the crossing of the threshold by the Corporate Officers:

On July 4, 2017, the Succession of Monsieur Jacques Dubois had crossed the 10% threshold downwards of the voting rights.

During 2016 first half, no Corporate Officer declared to have crossed the threshold to the upward nor downward direction.

Transactions following the half year closing:

Nothing to report.

2 FINANCIAL STATEMENTS

2.1. Consolidated income statement

(In € thousands)	Note	July 31, 2017	July 31, 2016	January 31, 2017
Licenses and maintenance		39,032	40,169	108,316
Consulting		14,523	15,161	31,177
Other		188	647	1,058
REVENUE	4.1	**53,743**	**55,977**	**140,551**
Cost of sales		(17,564)	(16,905)	(37,491)
Research and development costs	5.2	(13,502)	(13,058)	(26,942)
Selling and marketing expenses		(19,501)	(18,913)	(41,842)
General and administrative costs		(8,628)	(8,940)	(18,912)
CURRENT OPERATING RESULT		**(5,452)**	**(1,839)**	**15,365**
Other operating income and expenses	3.2	(595)	(992)	(1,644)
Total operating expenses		*(59,790)*	*(58,808)*	*(126,830)*
INCOME FROM OPERATIONS		**(6,047)**	**(2,831)**	**13,721**
FINANCIAL RESULT	6.2	**(1,634)**	**(1,579)**	**(2,115)**
Share of profit of associates		(287)	(283)	89
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS		(7,969)	(4,693)	11,695
Provision for income tax	7.1	2,142	1,425	(3,992)
NET INCOME BEFORE MINORITY INTERESTS		**(5,827)**	**(3,268)**	**7,703**
Minority interests		85	195	180
NET INCOME (GROUP SHARE)		**(5,912)**	**(3,463)**	**7,523**
Earnings per share (in euros)		(1.06)	(0.59)	1.36
Diluted earnings per share (in euros)		(1.06)	(0.59)	1.35

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

Statement of comprehensive income

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
NET INCOME BEFORE MINORITY INTERESTS	(5,827)	(3,268)	7,703
OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME			
Change in the fair value of hedging instruments	1	(3)	(8)
Translation differences	(893)	(72)	27
OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME			
Actuarial gains and losses	-	-	(481)
Income and expenses recorded directly in equity	(892)	(75)	(462)
Comprehensive income	**(6,719)**	**(3,343)**	**7,241**
Attributable to Group equity holders	(6,770)	(3,535)	7,064
Attributable to minority interests	51	192	178

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

2.2. Balance sheet

ASSETS

(In € thousands)	Note	July 31, 2017	July 31, 2016	January 31, 2017
NON-CURRENT ASSETS		**129,204**	**120,889**	**122,794**
Goodwill	3.1	41,271	41,045	40,810
Intangible assets	5.1	59,404	56,527	57,830
Property, plant and equipment		5,382	4,138	4,440
Investment in associates		563	553	890
Deferred tax assets	7.2	15,061	14,435	10,901
Other non-current assets		7,425	4,123	7,900
Cash-flow hedging instruments		98	68	22
CURRENT ASSETS		**66,874**	**68,976**	**104,921**
Trade receivables		34,753	32,300	74,064
Other current receivables		12,911	13,939	12,273
Prepaid expenses		3,985	3,416	4,115
Cash and cash equivalents		15,225	19,321	14,470
TOTAL ASSETS		**196,078**	189,865	**227,715**

LIABILITIES

(In € thousands)	Note	July 31, 2017	July 31, 2016	January 31, 2017
EQUITY		**93,979**	**88,909**	**99,488**
Equity (Group share)		**93,035**	**87,882**	**98,475**
Capital		18,021	17,961	17,976
Additional paid in capital		25,550	25,125	25,218
Reserves and retained earnings		54,392	46,510	45,915
Net income (loss)		(5,912)	(3,463)	7,523
Translation differences		984	1,748	1,843
Minority interests		**943**	**1,027**	**1,013**
NON-CURRENT LIABILITIES		**49,094**	**49,390**	**48,766**
Long-term share of financial debt	6.1	36,149	36,238	36,031
Provision for employee benefits		8,600	7,489	8,472
Deferred tax liabilities	7.2	3,490	3,773	2,963
Cash-flow hedging instruments		33	463	53
Other long-term debt		822	1,426	1,247
CURRENT LIABILITIES		**53,006**	**51,567**	**79,461**
Short-term share of financial debt	6.1	7,673	6,789	15,805
Trade payables		6,980	6,084	10,895
Accrued compensation; taxes and others short-term liabilities		18,495	19,214	29,329
Provisions for contingencies, risks and disputes		1,012	1,130	1,042
Deferred income		18,845	18,350	22,389
TOTAL LIABILITIES		**196,078**	**189,865**	**227,715**

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

2.3. Consolidated statement of changes in equity

(In € thousands 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 JANUARY 31, 2016	5,955,072	17,865	24,938	46,212	1,827	90,842	884	91,727
Change in fair value of hedging instruments				(8)		(8)		(8)
Translation differences					25	25	2	27
Actuarial gains and losses				(476)		(476)	(4)	(481)
Income and expenses recognized directly in equity				**(485)**	**25**	**(459)**	**(2)**	**(462)**
Net income				7,523		7,523	180	7,703
COMPREHENSIVE INCOME				7,039	25	7,064	178	7,241
Proceeds from issue of shares	36,920	111	280			391		391
Treasury shares				(315)		(315)		(315)
Share-based payments				333		333		333
Transactions with non-controlling interests				169	(9)	160	(49)	111
AT JANUARY 31, 2017	**5,991,992**	**17,976**	**25,218**	**53,438**	**1,843**	**98,475**	**1,013**	**99,488**
Change in fair value of hedging instruments				1		1		1
translation differences					(859)	(859)	(34)	(893)
Actuarial gains and losses						-		-
Recognized income and expense directly in equity				**1**	**(859)**	**(858)**	**(34)**	**(892)**
Net income				(5,912)		(5,912)	85	(5,827)
COMPREHENSIVE INCOME				**(5,911)**	**(859)**	**(6,770)**	**51**	**(6,719)**
Proceeds from issue of shares	15,000	45	332			377		377
Treasury shares				494		494		494
Share-based payments				252		252		252
Transactions with non-controlling interests				206		206	(121)	85
AT JULY 31, 2017	**6,006,992**	**18,021**	**25,550**	**48,479**	**984**	**93,035**	**943**	**93,979**

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

2.4. Consolidated statement of cash flows

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
Net income before minority interests	**(5,827)**	**(3,268)**	**7,703**
Share of profit of associates	287	283	(89)
Amortization and provisions	1,783	2,357	4,574
Net impact of capitalization of development costs	(2,017)	(1,018)	(2,832)
Income taxes (current and deferred)	(2,142)	(1,425)	3,992
Income taxes paid	(1,073)	(1,177)	(3,243)
Unrealized financial gains and losses	984	722	(60)
Share-based payment transactions	252	131	333
Gains and losses on assets disposals	8	13	130
CASH FLOWS	**(7,744)**	**(3,382)**	**10,509**
Trade receivables	38,249	35,474	(6,649)
Trade payables	(4,166)	(1,823)	2,949
Other receivables and other liabilities	(15,017)	(12,640)	2,198
Changes in working capital requirements	**19,065**	**21,011**	**(1,502)**
NET CASH FROM OPERATING ACTIVITIES	**11,322**	**17,630**	**9,007**
Purchase of intangible assets	(381)	(143)	(528)
Purchase of property, plant and equipment	(1,937)	(861)	(2,201)
Acquisition of subsidiaries, net of cash acquired	(951)	(4,361)	(4,361)
Other investment operations	295	(20)	(3,566)
NET CASH USED FOR INVESTING ACTIVITIES	**(2,974)**	**(5,384)**	**(10,656)**
Proceeds from loans	153	4,558	19,891
Repayment of borrowings	(8,249)	(8,368)	(14,775)
Proceeds from issue of shares	378	272	391
Purchase and proceeds from disposal of treasury shares	494	10	(315)
Dividends paid to minority shareholders	(121)	-	-
NET CASH USED FOR FINANCING ACTIVITIES	**(7,346)**	**(3,529)**	**5,193**
Effect of exchange rate changes on cash and cash equivalents	(217)	278	186
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**785**	**8,994**	**(3,729)**
Opening cash position	14,056	10,327	10,327
Closing cash position [(1)]	14,840	19,321	14,056
NET CHANGE IN CASH AND CASH EQUIVALENTS	**785**	**8,994**	**(3,729)**

(1) Net cash and cash equivalents at July 31, 2017 comprised € 15.225 million in assets less € 0.385 million in bank overdrafts. Overdrafts amounted € 0.414 million at January 31, 2017.

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

2.5. Notes to the consolidated financial statements

Half-year consolidated financial statements are subject to a limited review by statutory auditors.

Note 1. Accounting principles

Note 1.1. General information

ESI Group is a leading innovator in Virtual Prototyping software and services. ESI developed a unique and innovative know-how to help the industrialists to replace the real prototypes by virtual prototypes, allowing them to make, to assemble and to test their products in different environments.

It should also be noted that the Group activity is submitted to important seasonal fluctuations. As typically observed in the software industry, revenue, operating income and net income are historically higher in the second half.

ESI Group is a company registered in France and governed by French law. ESI Group has its head office at 100-102, avenue de Suffren, Paris (75015), France. The company is listed in compartment B of NYSE Euronext Paris, under the ISIN code: FR 0004110310.

Half-year consolidated financial statements of ESI Group have been validated by the Board of Directors on September 18, 2017.

Note 1.2. Accounting standards applied

The condensed interim consolidated financial statements for the six months ended July 31, 2017 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. As condensed financial statements, they do not include all the information required by IFRS for the preparation of the annual financial statements and must therefore be read in conjunction with the Group consolidated financial statements for the year ending at January 31, 2017.

The accounting standards are identical to those applied when preparing the consolidated financial statements for the year ended January 31, 2017.

The consolidated financial statements at January 31, 2017 and the condensed consolidated financial statements at July 31, 2017 are prepared in accordance with IFRS (International Financial Reporting Standards) as adopted in the European Union.

<u>Application of new standards prior to their mandatory effective date</u>

The Group did not opt for early application of standards and interpretations not mandatory as of February 1, 2017, in particular, the followings:

- IFRS 15 — “Revenue from Contracts with Customers”, applicable to fiscal years beginning on or after January 1, 2018;
- IFRS 9 — “Financial Instruments”, applicable to fiscal years beginning on or after January 1, 2018.

Regarding IFRS 15, ESI's main focus is on the recognition of annual licensing fees. The Group continues to analyze its contracts and does not anticipate any significant change as its current method to recognize revenue is close to the new standard.

The impact of IFRS 9 and IFRS 16 (applicable for fiscal years beginning on or after January 1, 2019 subject to the adoption by the European Union) is currently being analyzed.

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 doubtful receivables, taxes, risks and disputes, as well as provisions for impairment of employee benefits.
Estimates used in half-year consolidated financial statements at July 31 may be amended at year-end.

Note 2.Significant events of the period

In February 2017, ESI Group acquired 100 % interest in French company Scilab Enterprises, and purchased the minority interests in its subsidiary ESI Italia, now 100% owned by the Group.

Note 3. Scope of consolidation

Note 3.1. Change in goodwill

(In € thousands)	January 31, 2017	Increase	Decrease	Foreign exchange gain/(loss)	July 31, 2017
Gross values	40,810	892		(430)	41,271
TOTAL NET VALUES	**40,810**	**892**		**(430)**	**41,271**

Acquisition of Scilab

In February 2017, ESI Group acquired 100% interest in the capital of French company Scilab Enterprises. The acquisition price amounts to € 550 thousands paid in treasury shares and a contingent consideration of a maximum amount of € 250 thousands. The difference between the acquisition price and the revalued net asset of € -185 thousands at the acquisition date was fully allocated to goodwill in the preliminary purchase price allocation.

Acquisition of Mineset Inc.

In February 2016, ESI Group acquired 100% interest in the US-based company Mineset Inc., specialized in machine learning. The allocation remains unchanged as compared to 2016 year-end.

(In € thousands)	Definitive allocation
Capitalized development costs	1,885
Deferred tax liabilities on intangible assets	(628)
Deferred tax assets on tax loss carryforwards	509
Carrying amount of net assets prior to the acquisition	32
NET ASSET VALUE AT ACQUISITION DATE (100%)	**1,797**

Note 3.2. Non-recurring result

Other operating income and expenses are mostly composed of acquisition costs incurred during the fiscal year, as well as amortization costs related to intangible assets acquired as part of a business combination.

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
Amortization of acquired intangibles assets	(559)	(833)	(1,470)
Acquisition costs	(36)	(181)	(195)
Others external expenses and income	-	22	21
TOTAL OTHER OPERATING INCOME AND EXPENSES	**(595)**	**(992)**	**(1,644)**

Note 3.3. List of entities in the scope of consolidation

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

Subsidiaries	Date of creation or acquisition	Subsidiary head office	% of capital held		
			July 31, 2017	July 31, 2016	January 31, 2017
FULLY CONSOLIDATED SUBSIDIARIES					
Engineering System International	April 1973	Rungis, 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	Farmington Hills, Michigan, United States	100 %	100 %	100 %
Hankook ESI Co., Ltd.	September 1995	Seoul, South Korea	98.8 %	98.8 %	98.8 %
ESI Group Hispania s.l.	February 2001	Madrid, Spain	100 %	100 %	100 %
STRACO	April 2001	Compiègne, France	97.7 %	97.7 %	97.7 %
Mecas ESI s.r.o.	May 2001	Plzen, Czech Republic	95 %	95 %	95 %
ESI UK Limited	January 2002	Oxford, England	100 %	100 %	100 %
ESI US Holding, Inc.	August 2002	Dover, Delaware, United States	49 %	49 %	49 %
ESI US R&D, Inc.	August 2002	San Diego, California, United States	74 %	74 %	74 %
Calcom ESI SA	December 2002	Lausanne, Switzerland	99.9 %	99.9 %	99.9 %
Zhong Guo ESI Co., Ltd	February 2004	Canton, China	100 %	100 %	100 %
Hong Kong ESI Co., Limited	February 2004	Hong Kong, China	100 %	100 %	100 %
ESI Software (India) Private Limited	February 2004	Bangalore, India	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 Servicios de Informatica, Ltda	June 2008	São Paulo 015, Brazil	95 %	95 %	95 %
ESI Italia s.r.l.	September 2008	Bologna, Italy	100 %	90 %	90 %
Pacific Mindware Engineering Private Limited	December 2008	Pune, India	100 %	100 %	100 %
ESI Services Tunisie	April 2009	Tunis, Tunisia	95 %	95 %	95 %
ESI Group Beijing Co., Ltd	October 2010	Pekin, China	100 %	100 %	100 %
ESI Software Germany GmbH	August 2011	Stuttgart, Germany	98.5 %	98.5 %	98.5 %
Efield 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	99.9 %	99.9 %	99.9 %
CyDesign Ltd	October 2013	Oxford, England	99.9 %	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	Dresde, 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 %	-	-

SUBSIDIARY ACCOUNTED FOR USING THE EQUITY METHOD					
AVIC ESI (Beijing) Technology Co., Ltd	February 2014	Beijing, China	45 %	45 %	45%

ESI US Holdings is fully consolidated, as ESI Group has exclusive control.

Note 4.Operating data

Note 4.1. Revenue

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
TOTAL LICENSES AND MAINTENANCE	39,032	40,169	108,316
Consulting	14,523	15,161	31,177
Other revenue	188	647	1,058
TOTAL SERVICES	14,711	15,809	32,235
CONSOLIDATED REVENUE	**53,743**	**55,977**	**140,551**
O/w total co-financed research and development projects included in service revenue	*2,545*	*2,120*	*5,041*

Note 4.2. Information by geographic area

Revenue is distributed over the regions where it was effectively generated.

(In € thousands)	Europe, Middle-East and Africa	Asia-Pacific	Americas	Eliminations	Consolidated
HALF-YEAR ENDED JULY 31, 2017					
External clients	21,849	22,890	9,005		53,743
Affiliate companies	30,033	4,577	4,026	(38,636)	
NET SALES	**51,882**	**27,467**	**13,031**	**(38,636)**	**53,743**
YEAR ENDED JANUARY 31, 2017					
External clients	63,419	54,864	22,268	-	140,551
Affiliate companies	80,148	9,286	8,863	(98,296)	-
NET SALES	**143,567**	**64,150**	**31,131**	**(98,296)**	**140,551**
HALF-YEAR ENDED JULY 31, 2016					
External clients	21,244	25,507	9,226	-	55,977
Affiliate companies	28,001	4,063	3,634	(35,698)	-
NET SALES	49,244	**29,570**	**12,860**	(35,698)	55,977

Note 4.3. Personnel costs

In the income statement, personnel costs are presented by destination. Their break down by nature is as follows:

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
Salaries	(32,827)	(31,626)	(68,692)
Payroll taxes	(8,651)	(8,139)	(16,923)
Share-based payments	(252)	(131)	(333)
Post employment benefits	(238)	(304)	(644)
TOTAL PERSONNEL COSTS	**(41,968)**	**(40,200)**	**(86,592)**

Note 5. Intangible assets

Note 5.1. Change in the gross value, amortization and net value of intangible assets

(In € thousands)	January 31, 2017	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	July 31, 2017
GROSS VALUES						
Development costs	53,894		14,613			68,507
Intangible assets with an indefinite useful life	12,044					12,044
Other intangible assets	22,744	22	331		(84)	23,014
TOTAL	**88,681**	**22**	**14,945**	**-**	(84)	**103,564**
AMORTIZATION						
Development costs	(15,637)		(12,597)			(28,233)
Intangible assets with an indefinite useful life	(73)					(73)
Other intangible assets	(15,142)	(8)	(787)		83	(15,855)
TOTAL	**(30,851)**	**(8)**	**(13,384)**	**-**	**83**	**(44,160)**
NET CARRYING AMOUNTS						
Development costs	38,257		2,017,			40,274
Intangible assets with an indefinite useful life	11,971					11,971
Other intangible assets	7,602	14	(456)		(1)	7,159
TOTAL	**57,830**	**14**	**1,561**	**-**	**(1)**	**59,404**

Note 5.2. Capitalized development costs

NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
Development costs capitalized during the period	14,613	13,843	28,289
Development costs amortized during the period	(12,597)	(12,826)	(25,457)
NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS	**2,017**	**1,018**	**2,832**

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

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
R&D COSTS INCURRED DURING THE PERIOD	**(16,955)**	**(15,550)**	**(32,694)**
Development costs capitalized during the period	14,613	13,843	28,289
Development costs amortized during the period	(12,597)	(12,826)	(25,457)
French R&D tax credit	1,436	1,475	2,920
TOTAL R&D COSTS ACCOUNTED FOR AS EXPENSES DURING THE PERIOD	**(13,502**	**(13,058)**	**(26,942)**

Note 6. Financing

Note 6.1. Gross financial debt

At July 31, 2017	Maturity at July 31					
(In € thousands)	2018	2019	2020	2021	2022 and beyond	Total
Syndicated loan	4,464	4,464	4,464	4,464	16,695	34,553
Other bank borrowings	2,614			400	600	3,614
Factoring of French R&D tax credit for 2014 and 2015			1,991	2,448		4,439
Repayable advances	119					119
Other financial debts	476	283	65	65	210	1,098
TOTAL	**7,673**	**4,747**	**6,520**	**7,377**	**17,505**	**43,823**
CURRENT: 7,673		NON-CURRENT: 36,149				

At January 31, 2017	Maturity at January 31					
(In € thousands)	2018	2019	2020	2021	2022 and beyond	Total
Syndicated loan	4,464	4,464	4,464	4,464	16,695	34,553
Short-term revolving loan	8,000					8,000
Other bank borrowings	2,635			400	600	3,635
Factoring of French R&D tax credit for 2014 and 2015			1,991	2,448		4,439
Profit-sharing funds	163					163
Other financial debts	543	310	65	65	65	1,047
TOTAL	**15,805**	**4,774**	**6,520**	**7,377**	**17,360**	**51,837**
CURRENT: 15,805		NON-CURRENT: 36,031				

Changes in the financial debt over 2017 first-half are primarily related to the repayment of the revolving loan used for € 8 million at January 31, 2017.

All financial debts are denominated in euros.

Note 6.2. Financial income and expenses

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
Interest and related expenses on borrowings	(438)	(507)	(1,000)
Interest income	3	3	12
Foreign exchange gains / (loss)	(992)	(574)	(818)
Floor of syndicated credit	-	(273)	258
Other financial expenses	(207)	(228)	(566)
FINANCIAL RESULT	**(1,634)**	**(1,579)**	**(2,115)**

Interest and related expenses on borrowings are composed of interests paid on bank loans and costs related to hedging instruments for the syndicated loan.

In accordance with IFRIC's position, issued in 2016 and stating that separate recognition is not necessary for an embedded interest rate floor in a syndicated debt contract, ESI Group reclassified to profit at January 31, 2017 the € 258 thousands financial debt recognized at January 31, 2016.

Other financial expenses include:

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

Foreign exchange gains and losses

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
USD	(116)	(338)	(216)
JPY	(421)	(547)	(823)
KRW	(109)	122	114
Other currencies	(345)	189	107
TOTAL	**(992)**	**(574)**	**(818)**

Note 7. Income tax

Note 7.1. Income tax expense

The income tax recorded in the consolidated income statement is as follows:

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
Current taxes	(1,523)	(2,155)	(4,322)
Deferred taxes	3,665	3,580	330
TOTAL	**2,142**	**1,425**	**(3,992)**

As explained in note 1.1, the Group activity is subject to important seasonal fluctuations that generate deferred tax assets as of July 31, 2017.

Note 7.2. Deferred taxes

BREAKDOWN OF DEFERRED TAXES BY TAX BASE

(In € thousands)	July 31, 2017	July 31, 2016	January 31, 2017
Tax loss carryforwards	7,273	6,647	1,928
Temporary differences related to maintenance	3,147	3,083	4,454
Provisions for employee benefit commitments	2,822	2,401	2,792
Other	(1,671)	(1,468)	(1,238)
NET DEFERRED TAX	**11,572**	**10,662**	**7,939**

Note 8. Subsequent events

No subsequent events to be reported.

3 STATUTORY AUDITORS' REVIEW REPORT ON THE 2017 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
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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, 2017 to July 31, 2017

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, 2017 to July 31, 2017;
- the verification of the information contained in the half-year management report.

These condensed half-year 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 22, 2017

The Statutory Auditors
French original signed by

PricewaterhouseCoopers Audit
Thierry Charron

ERNST & YOUNG Audit
Frédéric Martineau

4 DECLARATION 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, September 22, 2017

Alain de Rouvray
Chairman and Chief Executive Officer of ESI Group