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2015

REGISTRATION DOCUMENT

INCLUDING THE ANNUAL FINANCIAL REPORT

PIONEER AND WORLD-LEADING PROVIDER IN VIRTUAL PROTOTYPING

ESI Group

French limited company (société anonyme) with a share capital of EUR 17,865,216
Registered office: 100/102, avenue de Suffren, 75015 Paris, France
Paris Trade and Company Register (RCS) number 381 080 225

REGISTRATION DOCUMENT

INCLUDING THE ANNUAL FINANCIAL REPORT

Fiscal year 2015 (ended January 31, 2016)

AMF | AUTORITÉ DES MARCHÉS FINANCIERS

This Registration Document was filed with the French Financial Markets Authority (AMF) on Friday, May 20, 2016 in accordance with Article 212-13 of the AMF's General Regulations. It may not be used in connection with any financial transaction unless it is accompanied by a memorandum approved by the AMF. The issuer prepared this document and the signatories are responsible for the information herein.

French copies of the Registration Document are available free of charge from ESI Group (the "Company" or the "Group") - 100/102, avenue de Suffren, 75015 Paris, France - as well as on ESI Group's website (www.esi-group.com) and on the AMF's website (www.amf-france.org).

This document is an English-language translation of ESI Group's Document de référence [Registration document], which was filed with the French Financial Markets Authority (AMF) on May 20, 2016, in accordance with Articles 212-13 of the AMF General Regulation.

Only the French version of the Document de référence is legally binding.

CONTENT

1 GENERAL INFORMATION

1.1. Persons responsible for the Registration Document

1.1.1. Person responsible for the content of the Registration Document

Paris, on May 20, 2016.

Mr Alain de Rouvray, Chairman and Chief Executive Officer of ESI Group:

"Having taken all reasonable care to ensure that such is the case and to the best of my knowledge, I hereby declare that the information contained in this Registration Document gives a true and fair view of the facts and that no material aspects have been omitted.

I hereby declare that, to the best of my knowledge, the 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. I further declare that, to the best of my knowledge, the management report provided in Section 4 presents a fair picture of the business trends, results and financial position of the Company and all consolidated companies making up the Group, as well as a description of the primary risks and uncertainties these entities face.

I have obtained a letter from the statutory auditors stating that they have completed their assignment which included checking the information relating to the financial position and the financial statements provided in this document as well as reading the entire annual report

The statutory auditors prepared a report on the consolidated financial statements for the fiscal year 2015, ended January 31, 2016. This report appears on section 5.1.6 and contains no observations.

The statutory auditors prepared a report on the consolidated financial statements for the fiscal year 2014, ended January 31, 2015. This report appears on page 89 of the Registration Document filed with the French Financial Markets Authority (AMF) on May 22, 2015 under number D.15-0528 and contains no observations.

The statutory auditors prepared a report on the consolidated financial statements for the fiscal year 2013, ended January 31, 2014. This report appears on page 88 of the Registration Document filed with the French Financial Markets Authority (AMF) on May 30, 2014 under number D.14-0587 and contains no observations."

1.1.2. Person responsible for the financial Information

Mr Laurent Bastian, Chief Financial Officer of ESI Group.

1.2. Statutory auditors

Statutory auditors

PricewaterhouseCoopers Audit

63, rue de Villiers
92200 Neuilly-sur-Seine

Represented by Mr Thierry Charron.

Date of appointment: Combined General Meeting of July 22, 2015 for a term of six years.

Term of office: Annual General Meeting called to approve the financial statements for the year ended January 31, 2021.

PricewaterhouseCoopers Audit is a member of the Versailles Regional Association of Statutory Auditors.

Ernst & Young Audit

Faubourg de l'Arche
1/2, place des Saisons
92400 Courbevoie Paris-La Défense 1

Represented by Mr Frédéric Martineau.

Date of appointment: Combined General Meeting of July 22, 2015 for a term of six years.

Term of office: Annual General Meeting called to approve the financial statements for the year ended January 31, 2021.

Ernst & Young Audit is a member of the Versailles Regional Association of Statutory Auditors.

Alternate auditors

Auditex

Faubourg de l'Arche
11, allée de l'Arche
92037 Paris-La Défense Cedex

Represented by Mr Emmanuel Roger.

Date of appointment: Combined General Meeting of July 22, 2015 for a term of six years.

Term of office: Annual General Meeting called to approve the financial statements for the year ended January 31, 2021.

Monsieur Yves Nicolas

63, rue de Villiers
92200 Neuilly-sur-Seine

Date of appointment: Combined General Meeting of July 22, 2015 for a term of six years.

Term of office: Annual General Meeting called to approve the financial statements for the year ended January 31, 2021.

1.3. General information

1.3.1. Legal information

The Company's corporate name is "ESI Group".

The Company was founded on January 28th, 1991 for a term of ninety-nine years in the form of a limited company (*société anonyme)* governed by French law.

The Company is registered with the Paris Trade and Company Register (75000) under the registration number 381 080 225.

The Company's registered office is 100/102, avenue de Suffren – 75015 Paris, France.

The Company's fiscal year begins on February 1 of each year and ends on January 31 of the following year.

1.3.2. Articles of Association and Shareholder relations

1.3.2.1. Corporate purpose

In accordance with Article 2 of the Articles of Association, the Company's purpose in France and all other countries is to:

- Research, develop, design, create and distribute computer software. To provide all forms of assistance, training and, in general, all related activities that may be directly or indirectly related to the corporate purpose;
- Acquire, receive, hold, manage and trade in a portfolio of securities, especially in fields related to the publishing of scientific software, including digital simulation software for prototyping and manufacturing processes and related decision-making support tools.

The Company may perform any of the abovementioned operations on its own behalf or on behalf of third parties by creating new companies, forming partnerships, subscribing to shares in existing companies, purchasing securities or rights to equity instruments, merging companies, forming business alliances, undertaking joint investments, obtaining the use of any property under a lease or lease management agreement, forming joint ventures or otherwise.

To this end, the Company carries out any and all economic or financial studies necessary and provides recommendations in relation to investments, acquisitions and divestitures. It also provides assistance as a management consultant to companies in which it holds a stake and to other companies. It prepares all types of reports and expert opinions; it assists with business restructuring measures and mergers.

In general, it carries out any and all financial, commercial or industrial operations and real estate and property transactions that may be directly or indirectly related to the corporate purpose of the Company or likely to promote the Company's expansion or growth.

1.3.2.2. Information on members of the administrative, management and supervisory bodies

Information on members of administrative, management and supervisory bodies is contained in the section 3.2 "Chairman's report on corporate governance, internal control and risk management".

1.3.2.3. Rights, privileges and restrictions attached to shares

Allocation of income and distribution of profits (Article 22 of the Articles of Association)

Pursuant to Article 22 of the Articles of Association, five percent (5%) of the net profit for the fiscal year, less any losses carried forward, will be set aside to form the legal reserve fund; this deduction is no longer required once the legal reserve has reached one-tenth of the share capital; the requirement applies again when, for any reason, the reserve falls below said one-tenth fraction.

The balance of said profit, plus any profit carried forward, forms the profit available for distribution.

Shareholders have sole control over this profit and decide how it will be appropriated at the Annual General Meeting. To this end, the Annual General Meeting may decide to allocate this profit, in full or in part, to any general or special reserve funds, carry it forward or distribute it to the Shareholders.

However, except in the case of a capital reduction, no profit may be distributed to the Shareholders if net assets are or will subsequently become less than the total capital plus reserves that may not be distributed in accordance with the law or the Articles of Association.

Any losses are recorded in the balance sheet under a special account once the financial statements have been approved by the Annual General Meeting

Double voting rights and shareholding thresholds (Article 9 of the Articles of Association)

In accordance with Article 9 of the Articles of Association, each share gives its holder ownership interest in the Company's assets and profits, this interest being proportionate to the percentage of the share capital that the share represents.

Anyone who had held fully paid-up registered shares for at least four years as of the date of the Extraordinary General Meeting of June 14, 2000 or thereafter is entitled to double voting rights under the law. Furthermore, if the capital is increased through the capitalization of reserves, profits or share premiums, this double voting right will apply, from the time of issue, to registered shares awarded free of charge to Shareholders on the basis of shares already held that bear this entitlement.

Any shares converted to bearer shares or transferred to a different owner are stripped of double voting rights, although other rights and obligations attached to the share are transferred to any owner thereof.

However, double voting rights are not lost and the abovementioned four-year period is not interrupted in the event that shares are transferred by way of an inheritance, following the liquidation of a marital estate, or in the form of an *inter vivos* gift to a spouse or a relative in the direct line of succession.

There are no other requirements under the Articles of Association regarding shareholding thresholds except for those set forth under current law.

1.3.2.4. Changes in share capital and the rights attached to shares (Article 8 of the Articles of Association)

Increases and reductions in capital

Extraordinary General Meetings have sole authority to decide to carry out or to authorize capital increases, upon recommendation by the Board of Directors.

If the share capital is increased through the capitalization of reserves, profit or share premiums, the General Meeting may make such decision in accordance with the requirements for quorum and majority set forth for Annual General Meetings.

The share capital must be fully paid up prior to any issue of new shares to be paid up in cash, otherwise the transaction may be declared null and void.

Shareholders are entitled, in proportion to their total shares, to pre-emptive subscription rights to cash shares issued as part of a capital increase.

The value of any contributions in kind must be appraised by one or more contribution appraisers appointed upon request by the presiding judge of the relevant commercial court.

Shares representing contributions in kind or stemming from the capitalization of profits or reserves must be fully paid up upon issuance.

At least one-fourth of the value of cash shares and the entire share premium, where applicable, must be paid up at the time of subscription. The remainder must be paid up in one or more installments within a period of five years from the date on which the capital increase was finalized.

Subject to the restrictions and reserves set forth by law, Extraordinary General Meetings may also decide to carry out or authorize a reduction in the share capital for any reason or in any manner whatsoever, including due to losses or via repayment or partial buyback of shares, reduction in the number of shares, or reduction in the par value of shares; under no circumstances may the reduction in capital undermine the principle of equality between Shareholders.

Form and transfer of shares (Article 9 of the Articles of Association)

Form

Shareholders may opt to hold fully paid-up shares as either registered shares or bearer shares. Shares will be recorded in the Company's accounts in accordance with the terms and procedures set forth by law.

Transfer of shares

Shares may be freely traded unless otherwise stipulated by law or regulation. Shares may be sold or traded by the Company and by third parties via transfer between accounts in accordance with the regulations in force.

1.3.2.5. General Meetings (Article 18 of the Articles of Association)

Pursuant to Article 18 of the Articles of Association, decisions are made collectively by Shareholders in General Meetings classified as either ordinary general meetings or extraordinary general meetings.

The procedures for calling and holding General Meetings are governed by French law. Meetings are held at the headquarters or at any other place indicated in the notice of meeting.

Annual General Meetings are called to make all decisions that do not require amendments to the Articles of Association.

They meet at least once a year, within six months from the end of the previous fiscal year.

Only Extraordinary General Meetings have the power to amend any provision set forth in the Articles of Association. However, such meetings may not increase the obligations of Shareholders, except in the event of transactions stemming from any valid consolidation of shares.

If there are multiple classes of shares, the rights attached to the shares of a certain category may not be changed without the approval of an Extraordinary General Meeting open to all Shareholders and, in addition, without further approval from a special meeting open only to those Shareholders holding shares belonging to the class in question.

All Shareholders have the right, upon presentation of proof of their identify, to take part in meetings by attending them in person, by video conference or by other means of electronic telecommunication or transmission, or by returning the mail-in ballot or designating a proxy, subject to the following conditions:

- Holders of registered shares must be registered, by name, in the Company's records;
- Holders of bearer shares must submit a certificate, to the location mentioned in the notice of meeting, issued by an authorized intermediary attesting that the shares registered in their name are unavailable for trading until the date of the meeting.

These requirements must be fulfilled at least five days prior to the meeting.

The Board of Directors may reduce this five-day period by way of a general decision for the benefit of all Shareholders.

In accordance with the conditions set forth above, the legal representatives of Shareholders deemed legally incompetent and individuals representing entities that hold shares in the Company may take part in the meetings, regardless of whether or not they are Shareholders themselves.

Proxy forms and mail-in ballots must be prepared and sent out in accordance with the law in force.

An attendance sheet is filled out for each meeting. This attendance sheet must be duly signed by the Shareholders present and by the proxies, and must be certified as accurate by the officers of the meeting.

General Meetings are chaired by the Chairman of the Board of Directors and, in the absence thereof, by the member of the Board appointed to replace him or her.

The two Shareholders representing, either on their own behalf or as proxies, the largest number of shares who are present at the meeting and willing to accept the responsibility, are appointed to serve as vote tellers.

The officers of the meeting, thus designated, are responsible for appointing a secretary, who need not be a Shareholder.

1.3.2.6. Shareholders' agreement

Information regarding the Shareholders’ agreement is contained in section 3.4.3 « Shareholders’ Agreement »

1.3.2.7. Provisions regarding a share ownership threshold, above which any shareholding must be disclosed

The provisions of Article L. 233-7 of the French Commercial Code that require any individual or entity to declare its stake in a company if such stake comes to represent more than 5%, 10%, 15%, 20%, 25%,30%, 33.3%, 50%, 66.66%, 90% or 95% of the share capital or voting rights of the Company applies to ESI Group.

In the event of failure to make such declaration, any shares exceeding the percentage that should have been declared will be stripped of their voting rights in accordance with Article 233-14 of the French Commercial Code for a term of two years from the date on which the declaration is properly made.

There are no requirements under ESI Group's Articles of Association to declare when certain shareholding thresholds are crossed.

1.3.2.8. Applicable charter or bylaws governing changes in share capital

Not applicable.

1.3.3. History of the Company

1973	■	Alain de Rouvray, with three other Berkeley Ph.Ds. colleagues and partners (Jacques Dubois, Iraj Farhooman, Eberhard Haug) creates ESI (Engineering System International). The company initially operates as a consulting company for European defense, aerospace and nuclear industries.
1979	■	The company opens a subsidiary in Germany, ESI GmbH
1985	■	First numerical simulation of a crash-test for a German consortium led by Volkswagen. First step towards the development of the PAM-CRASH software.
1991	■	ESI becomes ESI Group and raises venture capital from Burr, Egan Deleage and changes its structure to become a software editor. To market its software more widely ESI Group set up subsidiaries in the United States and Japan, and later in South Korea.
1997	■	Acquisition of Framasoft, renamed SYSTUS International, a leading French provider of mechanical simulation tools (SYSTUS, SYSWELD), especially in nuclear industry.
1999	■	Purchase of Dynamic Software, editor of the Optris "virtual press" software, a stamping simulation solution.
2000	■	ESI Group is introduced on the Paris "Nouveau Marché" stock market.
2001	■	Acquisition of Mecas in order to strengthen the Group's distribution network in Eastern Europe, then acquisition of STRACO in order to enter in the Vibro-Acoustic market.
2002	■	Strengthening of the Group’s position in Europe with the opening of a subsidiary in United-Kingdom. Acquisition of VASci (Vibro-Acoustic Sciences), for noise and acoustic comfort simulation. Positioning in the foundry and industrial metallurgy fields with the acquisition of ProCAST. Integration of the Swiss company Calcom as a complement to the foundry software Simulor from Aluminium Pechiney.
2003	■	Opening of a subsidiary in India in order to extend its global positioning. Acquisition of the intellectual property rights to EASi's Computer Assistance Engineering (CAE).
2004	■	Integration of the Products division of CFD Research Corporation allowing a diversification of the activity in the fluid dynamic area. Opening of a subsidiary in China in order to facilitate the access to strategic industrial projects.
2006	■	Acquisition of the Services branch of IPS International dedicated to digital simulation in the Korean market as well as intellectual property rights to their virtual human models "H-Models”. Signing of a strategic partnership and to take over the Chinese-based company ATE Technology International’s activities.
2008	■	Opening of a subsidiary in Italy. Acquisition of Vdot™, a software platform for lean process management from the company Procelerate Technologies Inc. Acquisition of Mindware Engineering Inc allowing to speed up the adoption of virtual prototyping in the Simulation-Based Design Fluid Dynamics market.
2009	■	Opening of a subsidiary in Brazil, and expansion into Tunisia with the creation of a ‘near-shore’ services division dedicated to high value-added projects and strengthening of the strategic partnership with the Tunisian firm Acoustica.
2011	■	Acquisition of IC.IDO ("I see, I do"), a European leader in the field of immersive virtual reality solutions. Acquisition of Efield, a European specialist in the virtual simulation of electromagnetic phenomena.
2012	■	Acquisition of OpenCFD Ltd, a leader in open source fluid dynamics software (CFD), from SGI. ESI Group

		thus became the owner of the OpenFOAM® software brand.
2013	■	Strategic collaboration agreement with Renault in accordance with the strategic plan "Renault 2016 – Drive the Change". Joint Venture contract with AVIC-BIAM, initiated in 2012 to jointly operate the new company "AVIC-ESI (Beijing) Technology Co. Ltd.". Acquisition of CyDesign Labs Inc. (US), a lead innovator in systems-modeling, owner of a disruptive proprietary technology to bridge product inception ('0D-1D' system modeling) and product validation ('3D' component modeling). Acquisition of the Vietnamese company Cam Mechanical Solutions Co., Ltd, (CAMMECH) allowing the creation in Asia of a 'near-shore' services division that will be dedicated to execution of high value-added projects.
2014	■	Signing of an exclusive partnership with EDF Energies Nouvelles.
2015	■	Acquisition of CIVITEC, a breakthrough technology allowing virtual simulation of automated driver assistance (ADAS). Acquisition of PicViz Labs, specialist in big-data based predictive analysis through advanced visualization. Acquisition of Ciespace's technology assets for Cloud based CAE modeling, enabling ESI's Virtual Prototyping solutions for Cloud/SaaS offering. Acquisition of Presto software dedicated to the electronics cooling promising market.
2016	■	Acquisition of the German company ITI GmbH, global leader in the realistic simulation of mechatronic and multi-domain systems. Acquisition of Mineset Inc., big data visual analytics and machine learning specialist.

1.3.4. Share capital and changes in the share capital

Shares making up the share capital (Article 7 of the Articles of Association)

As of the date of the Combined General Meeting of July 22, 2015 ESI Group's share capital stood at EUR 17,845,266 euros and is comprised of 5,948,422 shares.

Aside from the stock option plans, share purchase option plans and free share award plans, there is no other financial instrument that entitles its holder to ownership interest in the Company's share capital.

1.3.4.1. Non-equity securities

As of the date the Registration Document was drawn up, the Company had not issued any non-equity securities.

1.3.4.2. Breakdown of share capital and voting rights

Breakdown of voting rights

As of April 30, 2016, there were 7,687,767 voting rights.

As of April 30, 2015, there were 7,684,365 voting rights.

As of April 30, 2014, there were 7,725,701 voting rights.

Number of shares bought back by the Company during the year

During the fiscal year, the Company purchased 8,300 shares held by Mr Jacques Dubois, Director, under its share buyback program. The purpose of the treasury stock buyback program is to offer stock options as part of the Group's benefits package. The reason for this purchase was the Company's intention to maintain the shares and subsequently use them for payment or exchange within the context of possible external growth operations.

Breakdown of share capital as of April 30, 2016

- Capital stock 5,956,472
- Registered treasury stock 429,153
- Bearer treasury stock 0

On January 30, 2016, Mr Alain de Rouvray, conjointly with the de Rouvray family, hold 1,824,385 of the Company's shares, representing 30.64% of its share capital and 46.24% of its voting rights.

To the Company's best knowledge, there are no other Shareholders who directly or indirectly hold, either individually or jointly, 5% or more of its share capital or voting rights, with the exception of those named under Section 1.3.4.6.

Liquidity agreement

A liquidity contract is still in effect. It is the contract signed on March 12, 2009 with CM-CIC Securities.

1.3.4.3. Other share equivalents

None.

1.3.4.4. Unissued authorized share capital

Authorized by the Combined General Meetings of July 23, 2013, July 24, 2014 and July 22, 2015

The Combined General Meeting of July 23, 2013 in its resolutions 13th and 15th, that of July 24, 2014 through its 9th and that of July 22, 2015 in its 7th and 9th to 15th authorized the Board of Directors to increase the Company's capital as summarized below:

Resolution number	Purpose	Term of the authorization	Expiry date	Maximum	Authorized used
COMBINED GENERAL MEETING OF JULY 23, 2013					
13th resolution	Delegation of authority to the Board of Directors for the purpose of granting stock options	38 months	September 2016	Not to exceed 5% of the Company's share capital at the date of the Combined General Meeting, i.e. 294,538 shares	Stock option granted as of January 31, 2016: 20 000 Options remaining: 274,538
15th resolution	Authorization to the Board of Directors to award free shares to eligible employees and corporate officers of the Company and its affiliates	38 months	September 2016	Not to exceed 60,000 shares representing 1.02% of the Company's share capital	Free shares awarded: None Free shares remaining: 60,000
COMBINED GENERAL MEETING OF JULY 24, 2014					
9th resolution	Authorization to grant stock options	38 months	September 2017	Not to exceed 180,000 shares representing 3.068% of the share capital as of the date of the Annual & Extraordinary General Meeting	Options granted as of January 31, 2016: 7,350 Options remaining: 172,650
COMBINED GENERAL MEETING OF JULY 22, 2015					
7th resolution	Authorization given to the Board of Directors enabling the Company to buy back its own shares	18 months	January 2017	Not to exceed 10% of the Company's share capital	Not applicable
9th resolution	Delegation of authority to the Board of Directors for the purpose of increasing capital via the issue of shares of common stock or of any securities convertible into equity, with pre-emptive subscription rights accorded to shareholders	26 months	September 2017	Securities: EUR 90,000,000 Debt securities: EUR 45,000,000	Not applicable
10th resolution	Delegation of authority to the Board of Directors for the purpose of increasing capital via the issue of shares of common stock or of any securities convertible into equity, through public offerings and without pre-emptive subscription rights	26 months	September 2017	Securities: EUR 90,000,000 Debt securities: EUR 45,000,000	Not applicable
11th resolution	Delegation of authority to the Board of Directors for the purpose of increasing the issue amount in the event of over-demand	Within 30 days of the closing of the original issue	September 2017	Not to exceed 15% of the value of the original issue (referred to in resolutions 9 and 10) or the total ceiling of EUR 90,000,000.	Not applicable
12th resolution	Delegation of authority to the Board of Directors for the purpose of increasing capital by the capitalization of premiums, reserves, profits or otherwise	26 months	September 2017	Not to exceed the total amount of reserves, premiums and profits existing at the time of the capital increase or EUR 150,000,000 (a ceiling that might be reduced to the amount of capital increases undertaken pursuant to resolutions 9 to 14)	Not applicable
13th resolution	Delegation of authority to the Board of Directors for the purpose of issuing shares without pre-emptive subscription rights as compensation for contributions of shares or share equivalents granted to the Company as part of a contribution in kind	26 months	September 2017	Total ceiling of EUR 90,000,000 applied to capital increases authorized by resolutions 9 to 12	Not applicable
14th resolution	Delegation of authority to the Board of Directors for the purpose of increasing capital without	26 months	September 2017	20% of the share capital per year, not to exceed the overall maximum	Not applicable

	pre-emptive subscription rights through private placement			of EUR 90,000,000.	
15th resolution	Authorization given to the Board of Directors to increase capital by issuing shares reserved for employees who are members of the employee savings plan	26 months	September 2017	Not to exceed 2% of the Company's share capital	Not applicable

1.3.4.5. Information on the share capital of any member of the Group that is under option

None.

1.3.4.6. Change in the breakdown of the Company's share capital over the past three fiscal years, checks and balances

BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

Last name – First name	Number of shares	% of share capital	Number of voting rights	% of voting rights
AS AT APRIL 30, 2016				
The de Rouvray family	1,824,385	30.63%	3,554,425	46.23%
Dubois Jacques succession	410,419	6.89%	806,838	10.50%
SUB-TOTAL, GROUP OF FOUNDERS (REGISTERED SHARES)	2,234,804	37.52%	4,361,263	56.73%
Chaillou Vincent	13,597	0.23%	26,293	0.34%
des Isnards Charles-Helen	3,751	0.06%	6,252	0.08%
d'Hotelans Éric	1,589	0.03%	2,215	0.03%
MEMBERS OF THE BOARD OF DIRECTORS (REGISTERED SHARES) (EX-CLUDING FOUNDERS)	18,937	0.32%	34,760	0.45%
Publicly held registered shares	122,376	2.05%	140,542	1.83%
Publicly held bearer shares	3,151,202	52.90%	3,151,202	40.99%
SUB-TOTAL, PUBLICLY HELD SHARES	3,273,578	54.96%	3,291,744	42.82%
Treasury stock	429,153	7.20%	0	0.00%
TOTAL	**5,956,472**	100.00%	**7,687,767**	**100.00%**
AS AT APRIL 30, 2015				
The de Rouvray family	1,824,082	30.66%	3,549,089	46.19%
Dubois Jacques succession	420,419	7.07%	816,838	10.63%
SUB-TOTAL, GROUP OF FOUNDERS (REGISTERED SHARES)	2,244,501	37.73%	4,365,927	56.82%
Chaillou Vincent	13,597	0.23%	26,293	0.34%
des Isnards Charles-Helen	3,401	0.06%	5,402	0.07%
d'Hotelans Éric	1,589	0.03%	2,215	0.03%
MEMBERS OF THE BOARD OF DIRECTORS (REGISTERED SHARES) (EX-CLUDING FOUNDERS)	18,587	0.31%	33,910	0.44%
Publicly held registered shares	113,565	1.91%	133,329	1.74%
Publicly held bearer shares	3,151,199	52.97%	3,151,199	41.01%
SUB-TOTAL, PUBLICLY HELD SHARES	3,264,764	54.88%	3,284,528	42.74%
Treasury stock	420,853	7.07%	0	0.00%
TOTAL	**5,948,705**	100.00%	**7,684,365**	**100.00%**
AS AT APRIL 30, 2014				
The de Rouvray family	1,814,522	30.55%	3,533,649	45.80%
Dubois Jacques succession	442,419	7.45%	884,838	11.45%

SUB-TOTAL, GROUP OF FOUNDERS (REGISTERED SHARES)	2,256,941	38.00%	4,423,487	57.26%
Chaillou Vincent	12,696	0.21%	25,392	0.33%
des Isnards Charles-Helen	3,101	0.05%	4,252	0.06%
Bernard Francis	2,321	0.04%	2,992	0.04%
de la Serre Michel	1,615	0.03%	1,615	0.02%
d'Hotelans Éric	1,589	0.03%	1,590	0.02%
MEMBERS OF THE BOARD OF DIRECTORS (REGISTERED SHARES) (EX-CLUDING FOUNDERS)	21,322	0.36%	35,841	0.46%
Publicly held registered shares	36,554	0.62%	52,771	0.68%
Publicly held bearer shares	3,213,602	54.11%	3,213,602	41.60%
SUB-TOTAL, PUBLICLY HELD SHARES	3,250,156	54.72%	3,266,373	42.28%
Treasury stock	410,853	6.92%	0	0.00%
TOTAL	**5,939,272**	100.00%	**7,725,701**	**100.00%**

CHANGES IN SHARE CAPITAL

Date	Operation type	Change in share capital Issue of cash shares			Resulting total share capital	Total number of shares	Par value *(in Euros)*
		Per value *(in Euros)*	Premium *(in Euros)*	Number of shares created			
EGM of 1/28/1991	Incorporation of the Company	15.24		2,500	38,112	2,500	15.24
EGM of 7/26/1991	Issue of cash shares	15.24	(2,274,021)	834	50,827	3,334	15.24
EGM of 7/29/1991	Capitalization of share premium	15.24	(2,261,779)		2,312,606	3,334	694
EGM of 7/31/1991	Stock split and free share award	694		300,060	2,312,606	303,394	7.62
EGM of 11/5/1996	Issue of cash shares	7.62	3,565,206	32,276	2,558,628	335,670	7.62
EGM of 3/26/1997	Capitalization of share premium	7.62	(3,577,448)		6,140,707	335,670	18.29
	Withdrawal from the legal reserve		(4,631)				
EGM of 4/24/1997	Issue of cash shares	18.29	130,801.26	975	6,158,544	336,645	18.29
EGM of 12/9/1998	Stock split	18.29		3,703,095	6,158,544	4,039,740	1.52
EGM of 3/15/1999	Issue of cash shares	1.52	4,364,334	524,902	6,958,752	4,564,642	1.52
EGM of 7/8/1999	Capitalization of share premium	1.52	4,175,251		11,134,003	4,564,642	2.44
EGM of 6/14/2000	Issue of cash shares	2.44	2,783,502	1,141,161	13,917,505	5,705,803	2.44
Board of Directors meeting on 5/9/2001	Share capital adjustment Exercise of share subscription options	2.44	103,236	42,324	14,020,741	5,748,127	2.44
Board of Directors meeting on 5/9/2001	Conversion of the share capital from French francs into Euros	2.44			14,020,741	5,748,127	3
(EGM of 6/14/2000))	Capitalization of the share premium by increasing the par value of the shares	3	3,223,640		17,244,381	5,748,127	3
Board of Directors meeting on 3/8/2002	Share capital adjustment Exercise of share subscription options	3	7,500	2,500	17,251,881	5,750,627	3
Board of Directors	Share capital adjustment	3	301,500	100,500	17,553,381	5,851,127	3

meeting on 3/8/2005	Exercise of share subscription options						
Board of Directors meeting on 6/7/2007	Share capital adjustment Exercise of share subscription options	3	36,156	12,052	17,589,537	5,863,179	3
Board of Directors meeting on 4/14/2008	Share capital adjustment Exercise of share subscription options	3	21,775	3,350	17,599,587	5,866,529	3
Board of Directors meeting on 2/1/2012	Share capital adjustment Exercise of share subscription options	3	2,051	350	17,600,637	5,866,879	3
Board of Directors meeting on 2/28/2013	Share capital adjustment Exercise of share subscription options	3	24,905	4,250	17,613,387	5,871,129	3
Board of Directors meeting on 2/7/2014	Share capital adjustment Capital increase through cash contribution for employees who are members of the employee savings plan	3	276,014.18	21,463	17,677,776	5,892,592	3
Board of Directors meeting on 2/7/2014	Share capital adjustment Exercise of share subscription options	3	252,214.4	43,040	17,806,896	5,935,632	3
Board of Directors meeting on 3/10/2015	Share capital adjustment Exercise of share subscription options	3	74,949.4	12,790	17,845,266	5,948,422	3
Board of Directors meeting on 2/18/2016	Share capital adjustment Exercise of share subscription options	3	38,969	6,650	17,865,216	5,955,072	3

Checks and balances

The group of Founders is the Company's main Shareholder, with as of April 30, 2016, 37.52% of the Company's share capital and 56.73% of the exercisable voting rights.

To ensure that the group of Founders does not abuse its control, it should be noted that the Company's Board of Directors consists primarily of independent Board members. Furthermore, the Company's Board of Directors decided, during its meeting on April 15, 2010 to adopt the MiddleNext Governance Code for Small and Midcaps published in December 2009 (hereinafter referred to the as the "Corporate Governance Code") as its set of standards.

Committees have also been set up to enhance the efficiency of Board of Directors meetings and to assist in the decision-making process. These committees provide proposals, recommendations and opinions in their specific domain. The following Committees have been formed within the Company:

- The Audit Committee;
- The Compensation, Nomination and Governance Committee;
- The Audit Committee; and
- The Technology and Marketing Committee.

It should be noted that the Compensation, Nomination and Governance Committee is made up primarily of independent board members and that the Audit Committee consists solely of independent members.

2 THE GROUP

2.1. Main activities and markets

2.1.1. Main activities

ESI Group has developed a suite of coherent industry oriented applications to realistically simulate a product's behavior during testing, to fine-tune fabrication and assembly processes in view of desired product performance and to evaluate the environment's impact on the use of these products.

These applications represent a unique, open, collaborative virtual prototyping solution available in multi-domains which include the gradual elimination of the use of physical prototypes of components and sub-assemblies during the product development phase by letting users make decisions based on a "living" virtual prototype.

2.1.1.1. Strategy

2.1.1.1.1 Accelerating industrial innovation with Virtual Prototyping

The current global economic environment brings along tough competitive challenges for industrial companies, calling for immediate innovative answers.

For ESI Group and for its customers, this reveals more than ever the evident need for Virtual Prototyping.

With Virtual Prototyping, manufacturing industries become armed to face the greatest industrial challenge: to deliver innovative products at lower cost, faster, and with increased reliability.

Specific requirements include:

- Identifying safety and performance issues early in the design cycle;
- Assessing how new materials and manufacturing methods impact product performance and integrity;
- Implementing best practices that assure an optimum maintenance cycle and cost;
- Predicting equipment performance under extreme conditions and planning actions that will reduce downtime and repair costs.

ESI Group's objective is to give customers across many industry sectors the ability to virtually manufacture and assemble, part by part, complete and physically realistic virtual products that can be tested under normal and exceptional operating conditions. ESI customers can thereby expose practical issues related to manufacture, assembly and coupling between different product attributes and performance domains – and this, long before physical prototypes can be tested.

Virtual Prototyping delivers key information for design iterations that also helps prepare physical testing in the best possible way - up to pre-certification stage or in some cases, entirely eliminating the need for physical tests until final validation.

Moreover, recent immersive and interactive 3D technologies now offer real time visualization and handling of Virtual Prototypes. Using Virtual Reality solutions such as ESI Group's IC.IDO, industrial companies can now bring their product to life long before it is produced and even without requiring a physical prototype. This revolutionary technology enables collaborative, concurrent decision-making (multi-functional, multi-site and multi-physical) at each stage of the design process.

Finally, the deployment of ESI Group's solutions, notably thanks to the newly acquired technological building blocks, has further enhanced the growth potential of the Group. Innovative virtual prototypes become agile, smart and autonomous, to foster industrial transformation towards factories of the future and autonomous digital products.

In a word, Virtual Prototyping enables ESI's customers to get their product right: robust, innovative, for the right cost and at the right time.

2.1.1.1.2. Filling gaps and managing complexity in virtual product development with ESI Group's end-to-end virtual prototyping method

Real or virtual prototyping is essential to traditional product development processes. Industrial companies build and test physical prototypes to evaluate the product's design effectiveness and examine potential improvements on a trial and error basis.

Computer simulation helps reduce time and cost incurred in producing and testing real prototypes; offering the alternative to anticipate test results, eliminate useless tests and drive design changes more intelligently, thus cutting the number of real tests needed.

However, once a real prototype is produced, it is still customary and even prudent to calibrate the simulation model to match the actual test results, in order to make the simulation models credible.

While the above traditional methodology does bring about concrete gains, it has some inherent risks and significant gaps:

- Coupling effects between design disciplines and regulatory domains are unclear;
- The impacts of the manufacturing process and its flaws on the parts of the products - and also during the assembly - are unknown;
- The calibration is often generalized, late, and ad hoc on prototypes that do not represent the actual product;
- Innovations may be unduly rejected due to unmanageable complexity.

In contrast, ESI Group's Virtual Prototyping solutions provides a rational and effective answer to these fundamental concerns by placing Virtual Manufacturing and Virtual Reality at the core of a complete design methodology that follows rigorous guidelines for building reliable models:

- Virtual fabrication, step by step, while controlling and assembling the product and its components part by part;
- Virtual assessment of the multi-domain performance, gradually optimized with respect to, for example, standards, usual conditions and the increasingly demanding regulations, current and future;
- Building of cause-and-effects relationships between design and fabrication parameters, end-to-end from part to component to system, while making intelligent trade-offs by using interactive virtual reality on models of increasing complexity;
- Right at the onset of modeling, calibrate basic material physical properties to ensure realistic predictive models according to the identified circumstances and limits;
- Rigorous updates of these predictive models through pre-defined processes during assembly and multi-domain testing;
- Assessment of robustness and safety interactions regularly controlled at each step and in full transparency, making it possible to capture best practices;
- Finally all this contributing to the development of the model to ensure the final tests are right the first time.

Virtual Prototyping prevents risks and manages complexity, calibration and decision making in an interactive way. This unique methodology supports industrial competitiveness by reducing costs and time to market. It benefits each stage of product development processes, enabling virtual pre-certification before the final real testing, which may be required for final validation.

Innovations become dramatically easier to evaluate and implement.

Our success is the result of a remarkable collaborationand co-creation approach between ESI Group and global leaders in various industries. More and better is to come, thanks to the availability of greater computing power at an affordable cost and more user-friendly software solutions.

2.1.1.2. Main activities

The Group is engaged in two main business activities: the edition and distribution of software and consulting services.

2.1.1.2.1.Software edition and distribution (Licensing Activity)

Software packages are marketed in the form of licenses to use this proprietary software based on an annual fee system which, by nature, results in highly recurring revenues.

The significant value added provided by ESI Group's solutions requires major research and development work by highly qualified research engineers.

Solutions are sold worldwide. Distribution subsidiaries manage directly more than 90% of license sales, the rest is providing indirectly via a network of third-party distributors and agents. Both distribution networks are essential because complementary. In 2015, 531 employees or 46% of the total workforce work in our distribution network.

2.1.1.2.2. Consulting services (Services Activity)

In addition to its main business activity as a software vendor, the Group also provides consulting services directly related to virtual prototyping.

These services encompass three distinct areas:

- Specialized R&D projects pertaining to the creation of pre-industrial digital simulation models for new applications. These cutting-edge, high-risk R&D projects can last from two to three years and are carried out in collaboration with university labs and/or corporate R&D departments. These projects are handled by the Group like research and development or technology intelligence activities. In some cases they lead to government-type co-financing arrangements in Europe and the United States. They allow the Group to become involved, as a scientific partner, at a very early stage, in a wide variety of high-tech, innovative projects;
- Joint industrial engineering projects carried out in partnership with major industrial corporations striving focus on the large-scale deployment of new applications with high economic potential that have already been proven technologically viable, such as the specialized products described above. The Group customizes its specialized software and the industry partner performs the prototype trials necessary to validate specialized simulation models. The Group bills its partners for the cost of its services, but funds its own software development work. As a result, it keeps the intellectual property

rights to the software products developed or modified;

- Engineering and other services, including application tests (design verification, virtual manufacturing and virtual performance testing of industrial products), and support services in conjunction with software sales activities (training and technical assistance both on-site and off-site). These services are generally billed based on time worked (lump sum or actual time spent) except for telephone-based support services which may be provided as part of the support services included with the annual license for the use of the software packages.

2.1.2. Main markets

2.1.2.1. The virtual prototyping market

ESI Group's business model seeks to take advantage of major industry trends moving toward "all-digital" and computerized Product Lifecycle Management (PLM). In this market, ESI Group's solutions bring a considerable, fundamental improvement in the decision-making process by allowing the physical properties and behavior of the materials to be "realistically" taken into account in the digital model.

Characteristics of the market

The highly specialized nature of ESI Group's operations and its unique role in the virtual prototyping field makes any attempt to delineate precisely its market difficult. The Group thus has little information that would shed light on the specific characteristics or short-term outlook of this market, especially since the very definition of this market varies greatly among the players in the industry.

Consequently, US market research firm CIMData published a study on PLM (estimated at $39 billion) in April 2016 in which it included virtual prototyping under the category of "Simulation & Analysis Suppliers" (activity estimated at $4.8 billion). Most of the companies listed under this category are active in the analysis field. Within this panel, few companies reach the physical realism of the virtual prototyping solutions offered by ESI Group.

High barriers to entry

The complexity of the problems addressed by the Group, its long-standing experience working closely with major industrial corporations, its heavy investment in research and development and the wide range of solutions it offers, make it difficult for any newcomers to enter its market and compete with ESI Group.

In particular, the specialized fields in which ESI Group works require an understanding not only of structured geometric data (digital modeling) provided by CAD/CAM/CAE but also of the physical phenomena involved in simulation testing in order to make virtual models "realistic". ESI Group's technologies draw on:

- Long-standing partnerships with major industry players that both use (manufacturing industries) and supply (software platforms) technical computing systems;
- The highly-skilled teams of researchers, which the Company has been able to attract and retain thanks to its specialized expertise and reputation in the physical simulation field;
- Licensing agreements signed in a wide range of particular complex or highly specialized fields. All of these partnerships are the result of the exceptional degree of expertise gained since its founding in 1973. The Group has a solid reputation as a complex problem-solver for major corporations worldwide in a variety of disciplines and industrial sectors (automotive, defense, aerospace, nuclear power, transport, energy, electronics, consumer goods, biomedical, etc.)

As things stand today, it would be a mistake to discount the possibility that new competitors could appear on ESI Group's digital prototyping field with greater resources, but, especially as regards major CAD/CAM players, such a development does not seem desirable to or anticipated by major automakers, which appreciate doing business with specialized companies in the area of physics-based simulation, companies different from their other technology vendors.

Nevertheless, it should be mentioned that Dassault Systèmes' CATIA V5/V6 software suite did bring a certain degree of standardization to the industry and was well received by automakers in order to facilitate the sharing of computational data within the CAD/CAM world and ensure compatibility with resource management systems. It is also worth noting that Siemens/UGS entered the technical data management field with its TeamCenter solutions, the *de facto* standard in the automotive market. In 2012, Siemens supplemented its simulation offering by acquiring Belgian company LMS; however, the benefits generated by this acquisition, for Siemens, remain to be seen. Then, in January 2016, Siemens acquired CD Adapco, one of the leaders of digital simulation in fluid mechanics.

Given the high barriers to entry that protect ESI Group's business, a new competitor would not be successful except in the event of an industry-wide trend toward consolidation. It would also be difficult for a new industry player to make the acquisitions necessary to quickly build up a physical simulation product line as rich as that offered by ESI Group that offers the same prediction capabilities valued by the Group's major clients.

The need for a change in methodology

Although the solutions developed by ESI Group are typically used by the major clients in highly specialized, mature markets – like the automotive industry – its products can be adapted to a wide range of industries.

Large-scale adoption of these solutions would require, however, a radical change in how things are done that breaks away from the traditional "trial and error" methods still widely used in many industrial fields.

After the general downturn in the economy, which led to steep cuts in the research and development budgets of major manufacturers, the worldwide economic recovery and the increased pressure from international competitors should push many companies to move away from their current methodologies toward virtual prototyping, especially in areas such as aeronautics, energy and electronics.

The product performance lifecycle approach enables manufacturers to develop what might be considered a “virtual twin” of their daily real product. This “virtual twin” can be used to make decisions in each phase of the product lifecycle, including design, development, testing, manufacturing, operation, and disposal.

ESI is now orienting itself towards the wider market of professional users such as maintenance workers and certified technicians who interact with both the products and consumers.

2.1.2.2. Geographic zones

Markets are segmented both by geographic zone and by industry.

Geographic zones are based on the economic breakdown of the company:

- Americas = United-States and Brazil;
- Asia-Pacific = China, South Korea, Japan, Vietnam, India and Malaysia;
- Europe, Middle East and Africa = Germany, the United Kingdom, Spain, France, Italia, the Netherlands, Czech Republic, Russia, Sweden, Switzerland and Tunisia.

Revenues	2015		2014		2013	
	(In thousands of euros)	*(as a % of the total)*	*(In thousands of euros)*	*(as a % of the total)*	*(In thousands of euros)*	*(as a % of the total)*
Europe, Middle East and Africa	57,098	46%	53,480	48%	49,449	45%
Asia-Pacific	44,291	36%	38,475	35%	39,085	36%
Americas	23,329	19%	19,062	17%	20,783	19%
TOTAL	**124,718**	**100%**	**111,017**	**100%**	**109,317**	**100%**

As in previous years, ESI Group maintained a strong international presence, with 85.4% of its revenues coming from outside France.

2.1.2.3. Industries

The ESI Group's product and service offering is grouped into product lines and industrial solutions according to seven main sectors:

Ground transportation offering (automotive, railroad, etc.)

ESI Group offers a wide variety of industry-leading virtual prototyping solutions for components and sub-assemblies used in the transportation industry, focusing on the following areas:

- Passenger safety (airbags, seats, etc.);
- Vehicle body manufacturing and assembly;
- Vehicle body with trims and interior;
- Comfort (noise, vibrations, etc.);
- Engine and transmission;
- Aerodynamics, aerothermodynamics, under the hood simulation, ford crossing.

Main customers: Arcelor Mittal, Audi, Fiat Chrysler Group, Ford Motor, General Motor, Honda, Mercedes-Benz, Nissan, Renault, Shanghai Automotive Industry Corporation, Volkswagen Group.

Heavy industry offering

ESI Group's solutions are designed for companies such as those involved in processing raw materials and heavy industry. They are also meeting simulation needs in the following areas:

- Manufacturing processes (metal, plastic or composite materials, additive manufacturing);
- Optimization of the assembly of parts and simulation of their behavior in their environment.

Main customers: Alcoa, Arcelor, Caterpillar, General Electric, Henkel, Sumimoto, Takata.

Aeronautics and Aerospace offering

ESI Group's diverse offering allows it to propose other solutions in areas such as:

- Engineering and optimization of air flow, noise, impact, electromagnetics, etc.;
- Improvement of noise and vibration factors.

Main customers: Airbus Group, AVIC, Boeing, Lockheed Martin, NASA, PCC Corporate, Rolls-Royce, Safran-Snecma, Sikorsky, UTC Aerospace Systems.

Energy offering

The main application areas are the following:

- Verification of compliance with technical regulations (safety and useful life);
- Performance and improvement of new wind technologies;
- Energy consumption optimization.

Main customers: Areva, EDF, GDF, General Electric, Japan Atomic Energy Agency, Mitsubishi Heavy Industries, U.S. Department of Energy.

Government and Defense offering

The ESI Group product offering primarily covers the following areas:

- Complex physical phenomena;
- Comfort of military vehicles.

Main customers: BMBF, CEE, DCNS, Huntington Ingalls Industries, Japan Automobile Research Institute, Ministry of Research RTNL.

Electronics and Consumer Goods offering

ESI Group solutions include, in particular:

- Physical and chemical reactions involved in the industry;
- Unintended hypothetical circumstances and related safety measures.

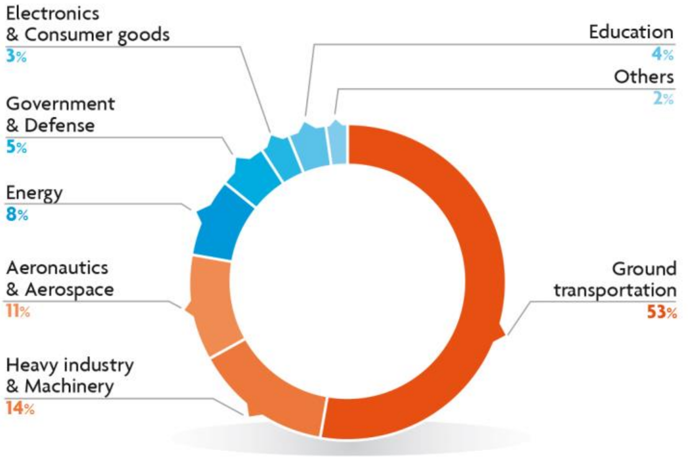
Main customers: Applied Materials, Aixtron, Gestamp Group, Honeywell, LG, Samsung.

Education offering

The solutions offered by ESI Group can be divided into two main areas, namely:

- Education, which helps train future engineers in new virtual prototyping tools and technologies;
- Special Research projects, undertaken in collaboration with universities to meet the needs of industry.

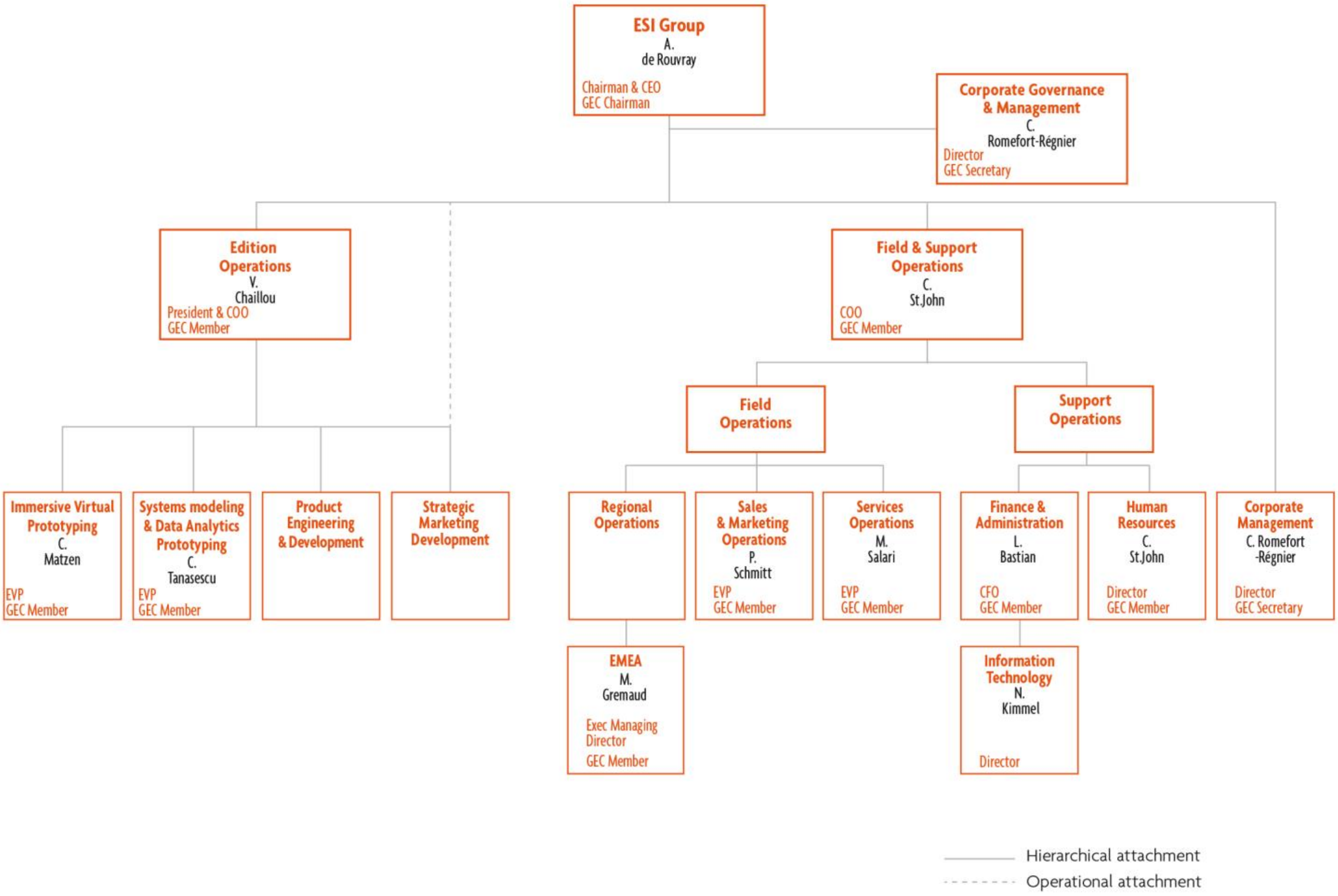
In 2015, booking orders between the main industrial sectors were broken down as follows:



2.2. Structure of the Company

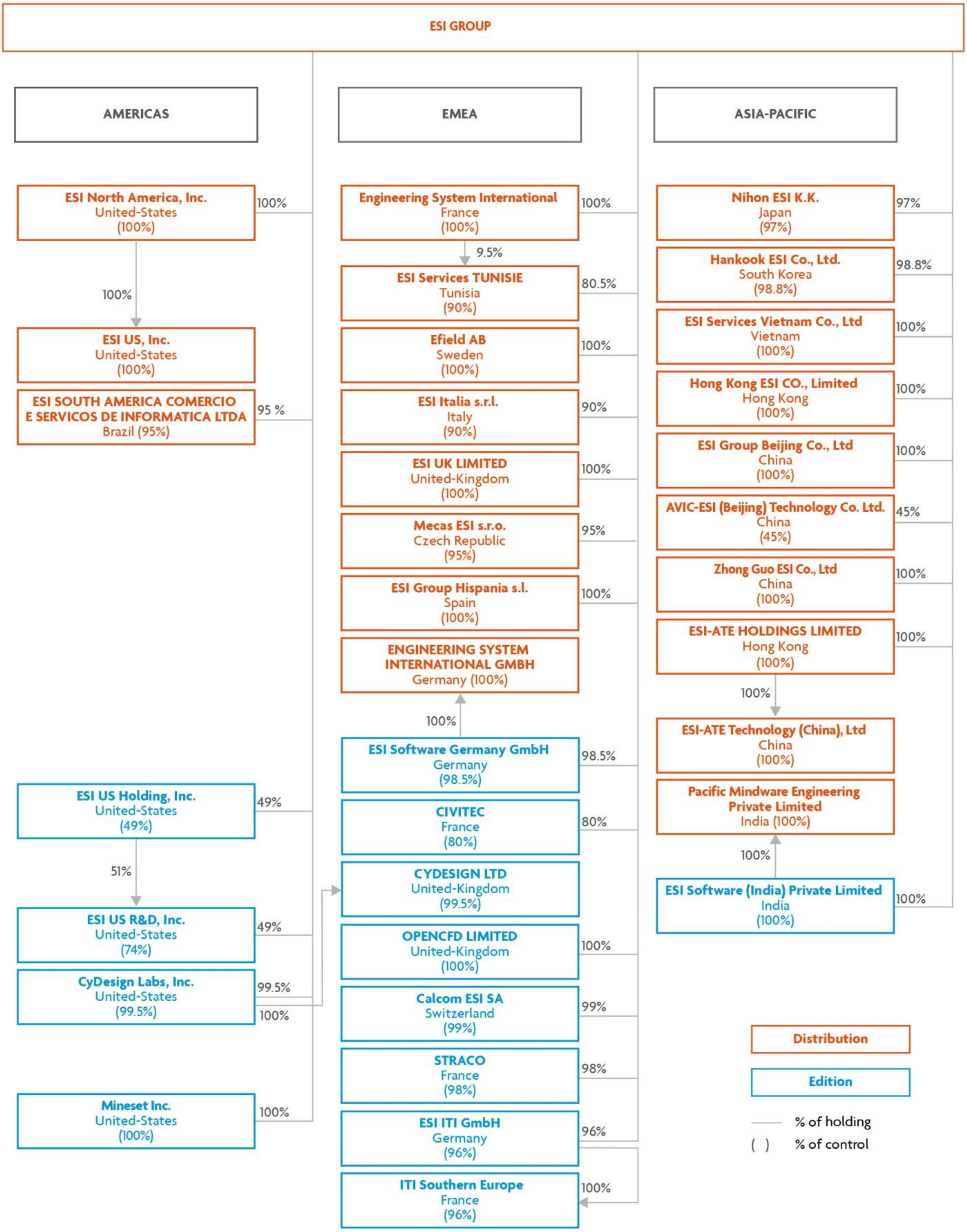
2.2.1. Operational organization chart

The Group's current operational structure is presented in the following diagram:



2.2.2. Legal organization chart

As of April 30, 2016, the Group's legal structure is as presented in the following chart, including Mineset Inc., acquired in February 2016.



Note: the percentages of equity and voting rights are identical.

2.2.3. Operational procedures of the Board of Directors

Information regarding operational procedures of the Board of Directors is contained in section 3.2 “Chairman's report on corporate governance, internal control and risk management”.

2.2.4. Operational procedures of executive management

2.2.4.1. Chief Executive Officer

In accordance with the law, either the Chairman of the Board of Directors or another individual appointed by the Board of Directors (or the “Board”) to serve as Chief Executive Officer is responsible for the executive management of the Company.

The choice between these two executive management options is made by the Board of Directors. The Board of Directors' decision relative to the choice of executive management structure is made by majority vote among the Board members present or represented. The Board of Directors' choice is reported to the shareholders and to third parties in accordance with the provisions set forth by the regulations in force.

The option selected by the Board of Directors must remain in effect until the end of the term of office of the Chief Executive Officer or Chairman, if the Chairman also serves as Chief Executive Officer.

At the end of this period, the Board of Directors must again decide on the Company's executive management structure.

The Board of Directors may, with the consent of the Chief Executive Officer or Chairman, if the Chairman also serves as Chief Executive Officer, decide to modify the executive management structure before the end of their term of office. Such change in the executive management structure does not require an amendment to the articles of association.

The Chief Executive Officer is given the broadest possible powers to act in all circumstances on behalf of the Company.

The powers of the Chief Executive Officer may be limited by the Board of Directors.

2.2.4.2. Chief Operating Officer

At the proposal of the Chief Executive Officer, regardless of whether this function is performed by the Chairman of the Board of Directors or by another person, the Board of Directors may appoint one or more individuals as Chief Operating Officer to assist the Chief Executive Officer.

The maximum number of Chief Operating Officer is five.

The Board of Directors determines the scope and duration of the powers granted to the Chief Operating Officer with the Chief Executive Officer's agreement and sets their compensation.

With respect to third parties, the Chief Operating Officer has the same powers as the Chief Executive Officer.

If the Chief Executive Officer resigns or is no longer able to carry out his duties, the Chief Operating Officers will retain their responsibilities and duties until the appointment of a new Chief Executive Officer unless the Board of Directors decides otherwise.

Chief Operating Officers may be dismissed at any time at the recommendation of the Chief Executive Officer. If Chief Operating Officers are dismissed without just cause, such dismissal may be grounds for compensation.

The powers of Chief Operating Officers are presented in the Chairman's report on internal control.

2.2.4.3. Limits on executive management

The powers of the Chairman and Chief Executive Officer are not subject to any limits.

2.2.4.4. Group Executive Committee (GEC)

The GEC makes all decisions relative to the Company's growth strategy in the following areas:

- Distribution (establishments and subsidiaries);
- Sales and Marketing;
- Product Operations;
- Service Operations;
- Finance and Administration;
- Human Resources;
- Quality;
- IT.

To this end, the GEC reviews the actions underway and sets out timelines for their completion.

The GEC prepares and submits documentation to the Board of Directors relative to certain operations that require Board approval before they can be carried out and/or implemented.

The GEC consists of members of the management team and a secretary. The number of members may be modified depending on changes in the management team.

Its members are presented in the Chairman Report in section 3.2.2.1.2.

The GEC may ask any individual who may be able to provide information on the topics addressed to help it make its decisions in an informed manner.

Any person invited to attend the GEC meetings is bound by the duty of confidentiality regarding any confidential information or data presented by the members of the GEC.

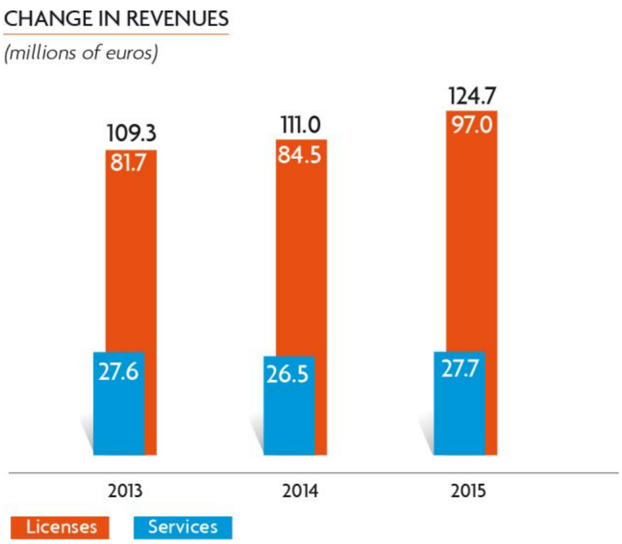
2.3. Selected financial information

This information can be found in the consolidated financial statements.

2.3.1. Revenues

2015 annual sales totaled EUR 124.7 million, up +12.3% on the previous year at actual rates. Acquisition-related revenues remained limited at EUR 0.7 million, split equally between Licensing and Services. There was a positive currency effect of EUR 6.1 million, arising mainly from the positive trend of the US dollar and, to a lesser extent, the Japanese yen and South Korean won.

The product mix shifted towards Licensing activity, which now accounts for 77.8% of total sales compared with 76.1% in previous year.

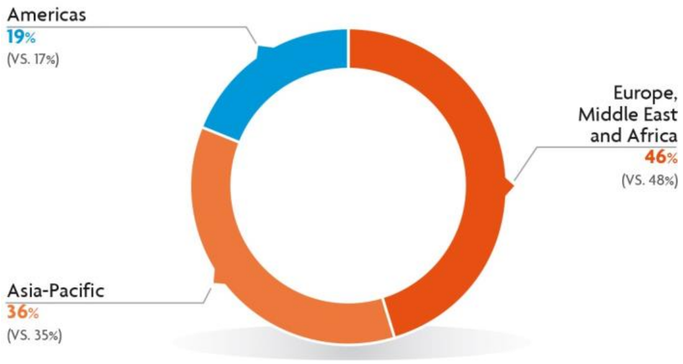


2.3.2. Breakdown of revenues per area

In 2015, the geographical split in sales reflected strong growth in Licenses activity in Asia and the Americas. These regions accounted respectively for 36% and 19% of total sales versus 35% and 17% for fiscal year 2014, whereas Europe made up 46% of sales, compared with 48%.

The BRIC countries accounted for 12.6% of sales in 2015, similar to the 2014 figure. Strong growth in Licenses activity in China (despite the yuan crisis of mid-2015) has compensated the economic difficult context in Russia, whereas Brazil remained stable despite the Brazilian crisis.

BREAKDOWN OF REVENUES PER AREA



2.3.3. Activities strategic alignment

Licenses activity recorded annual sales of EUR 97.0 million, up 14.8% at actual rates compared with the previous year. That solid growth reflects ESI Group's success in developing its installed base, which generates the very high repeat business rate of 90% at constant exchange rates. New Business amounted to EUR 17.4 million, a small decrease of 2.4% compared with 2014 despite strong momentum in the second half, particularly in China.

Services activity recorded a moderate growth of 4.5%, driven by a solid 14.8% increase in engineering studies, the core of ESI Group's Consulting activity (Services excluding Other Services, such as supply of equipment).

2.3.4. Profitability

EBITDA increased sharply by 32.2% to EUR 14.3 million, giving an EBITDA margin of 11.4% in 2015 compared with 9.7% in 2014. The reconciliation table below details the effect of the standardization in the definition of EBITDA and confirms the Group's good performance in terms of increase in profitability both prior to and after the integration of its acquisitions.

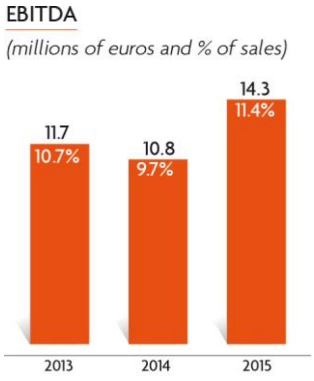
	2015	2014	Variation at actual terms	
			%	Amount
Turnover	**124.7**	**111.0**	**12.3%**	**13.7**
EBITDA – former definition	**11.7**	**10.1**	**15.3%**	**1.5**
– *of which organic*	13.6	10.1	34.5%	3.5
– *of which 2015 M&A*	- 1.9	0.0		- 1.9
R&D capitalization– net effect	3.5	1.2		2.3
Net provisions for accounts receivable depreciation	- 0.8	- 0.4		- 0.4
EBITDA – new definition	**14.3**	**10.8**	**32.2%**	**3.5**
– *of which organic*	14.8	10.8	37.2%	4.0
– *of which 2015 M&A*	- 0.5	0.0		- 0.5
Amortization on other tangible and intangible assets	- 2.2	- 2.1		- 0.1
Other net provisions	- 0.2	0.3		- 0.5
Current Operating Profit	**11.8**	**9.0**	**31.8%**	**2.9**

Current Operating Profit grew strongly by 31.8% to EUR 11.8 million, showing a current operating margin of 9.5%, or 1.4 percentage point on the previous year.

EBIT increased by 12.0% to EUR 9.4 million, giving a margin of 7.5%, stable on the previous year. This increase was smaller than the increase in EBITDA and current operating profit mainly because of exceptional costs, classified in non-recurring costs, associated with the last six technological acquisitions carried out in 2015.

The Financial Result was -EUR 0.9 million versus +EUR 0.7 million in 2014. In 2015, financial costs, notably associated with interest charges, were not totally offset by revenue from currency gains and losses, which in 2014 exceptionally totaled EUR 1.6 million following the strengthening of the US dollar at the end of the year.

Affected by the effects of non-recurring acquisitions costs and the Financial Result, attributable Net Profit totaled EUR 5.3 million in 2015, to yield a net margin of 4.3%. This takes into account a tax burden of EUR 3.2 million.



(1) Standardization in the definition of EBITDA implemented during the year 2015. The figures for previous years have been restated accordingly

2.4. Major investments during the past three fiscal years

2.4.1. The Group's recurring investments

The Group's recurring investments in operations represent approximately 2.5% of its revenues. Over the past three fiscal years, these investments have amounted to EUR 3.0 million in 2013, 1.8 million in 2014 and 2.7 million in 2015. This amount does not include the intangible assets recognized when allocating the acquisition prices (see notes 6.1 and 6.2 to the consolidated financial statements) or for the acquisition of technological bricks. These investments pertain mainly to the computer equipment required to grow the Group's business as well as the work required to outfit and equip various facilities of the Group. Investments are primarily financed using the Group's equity.

Research & development costs

ESI Group capitalizes the research and development costs that meet the six criteria set forth under IAS 38 in its annual financial statements. Information on research and development costs is found in notes 6.1.2 to the consolidated financial statements.

The net carrying amount of capitalized research and development costs stood at EUR 33.5 million as at January 31, 2016 and corresponds to almost 14 months of research and development.

2.4.2. The Group's non-recurring investments

a) Acquisitions of intangible assets

Since 1994, the Group has been acquiring both entire companies and specific branches of companies in order to supplement its offering and expand its market opportunities.

Intangible assets subject not to amortization but rather to impairment tests include goodwill and intangible assets with an indefinite useful life. These intangible assets have been subject to an impairment test as described in note 3.1 to the consolidated financial statements.

The change in the net carrying amount of these intangible assets between January 31, 2015 and January 31, 2016 is given in the table below. See notes 3.2.1 and 6.1.1 to the consolidated financial statements for further information.

(In millions of euros)	January 31, 2015	Perimeter change	Foreign exchange gain/loss	January 31, 2016
Goodwill	23.8	14.5	0.2	38.5
Intangible assets with an indefinite useful life	12.0			12.0
TOTAL	**35.8**	**14.5**	**0.2**	**50.6**

b) Financial investments

The Group does not engage in any type of financial investments and uses strictly conventional investments to earn interest on its available liquid assets.

2.4.3. Future investments

The Group will continue to invest in order to update and improve its production capacities and efficiency. The Group seeks out new opportunities that would allow it to increase its market share or to improve the services provided to its clients.

The Group plans to spend about EUR 2.9 million in 2016. Recurrent capital costs committed to at the time of writing are about EUR 0.1 million. On February 5, 2016, the Group also acquired the US company Mineset Inc., a machine learning specialist.

In order to evaluate any investment opportunities that could potentially improve its solutions, the Group has established a Product Council that helps the Group Executive Committee to make investment decisions based on market priorities and expected outcomes.

2.5. Risk factors

The Company has reviewed the risks that could have a material adverse effect on its business activities, financial position or results and considers that there are no material risks other than those described below.

In addition, there is a plan in progress to determine all the risk factors associated with the company's processes in order to meet the requirements of the new ISO 9001:2015 standard.

Risks can be classified into four sections, as follows.

2.5.1. Strategic risks

Risk related to technological changes and the ability to respond rapidly to customer needs

The ESI Group's line of business is based on a close customer relationship, so as to meet the customer's innovation needs in the different industrial segments suitable for implementing Virtual Prototyping. Nevertheless, to protect against the risk of disruptive technological changes in all the layers of the Group's products and services, the following networks have been developed:

- The Scientific Committee;
- Strategic partnerships with customers who co-create with the Group;
- Academic partnerships giving access to the latest technological information;
- Distribution partnerships with key hardware and cloud companies, giving advance access to the latest technologies.

Finally, the Group takes part in innovation projects co-financed by bodies of the European Union, competitiveness clusters in France and American research projects such as SBIR or Darpa. Together, these enable ESI Group to produce increasingly innovative solutions in a timely manner.

Risk of dependence on customers or one industrial sector

The Group strives to diversify its business, both geographically and by industry. The Ground transportation sector represents 53% of our revenues versus 57% last year, but uses a variety of technologies, which minimizes the risk of dependence.

In addition, we do not have a major account representing over 10% of our yearly orders written. The Group's twenty largest clients represent more than 40% of booking orders since several years.

It should also be noted that the Volkswagen scandal, one of the Group’s main customers, in September 2015 (Dieselgate) did not have any impact on fiscal year 2015 revenues.

2.5.2. Operational risks

Business risk

As regards business risks, the revenues earned from its Services Activity are recognized according to the percentage of completion method and represent, overall, 22.2% of the Group's total revenues. Intermediate payment installments are scheduled at the end of each quarter in order to approve the progress thus far and to justify the recognition of revenues.

The payment terms used by the Group vary from country to country. These terms stand at an average of 50 days for Northern Europe, the United States and Japan, and at 60-100 days for Southern Europe (including France). With respect to China, in many cases it takes over a year to collect on accounts receivable. An analysis of receivables by age is carried out each quarter in order to ensure collection and, where necessary, to establish the required provisions. Total doubtful debts are low. They are presented in note 4.2 to the consolidated financial statements.

The Group is not exposed to any specific risks as regards suppliers and partners. Its very limited use of subcontractors, typically on a personnel level, is not in any way strategic and does not represent any sort of risk factor.

Moreover, the Group has standard terms in place based on the type of service rendered.

Risk related to fixed-price contracts

In the case of fixed-price contracts in the Services division, the risk of underestimating costs is borne largely by ESI Group. Nonetheless, this risk is a function of the experience the Group has in the issues involved in the project. This risk is hedged by a contingency coefficient applied both to the price and to the deadline; it varies from 0% for standard projects to 50% for highly innovative projects. In addition, bids may include clauses limiting the services provided and providing for the negotiation of amendments to contracts in the event of additional requests by the customer.

With regard to the risk related to the inability to provide the expected results, this depends on the agreements and preliminary work known as "grasping the problem", which has so far allowed ESI Group to avoid this risk. No agreements are signed without having a precise idea of how to proceed in order to deliver the services agreed upon. Furthermore, the risk as to the acceptance of the results is covered by acceptability criteria specified either in the bid or at the start of work.

Risk related to management and key personnel

The expertise and experience of key personnel are today shared broadly among qualified staff. No employee is the exclusive owner of a code or piece of know-how not shared among the teams.

In addition, the Company has committed to an employee loyalty policy, primarily by creating Employee Share Ownership Plans (stock option and free shares) for key personnel.

Risk related to the security of facilities and internal systems

An experienced security agency constantly watches our systems and network security. The internet connections and firewalls of all facilities are centrally managed and monitored, thus minimizing risks of intrusion or piracy. Critical services, located in Rungis, are regularly backed up in accordance with a documented process. In the event of a major malfunction or catastrophe, a back-up site (in Lyon) has been designed and is operational since 2014.

Industrial and environmental risk

ESI Group has an obligation of means to its clientele (e.g. the integrity of the algorithms used in its software) but not an obligation to produce a specific result regarding the implementation of its software. Since it deals with a very diverse customer base of major multinational industrial corporations, ESI Group's risk of client insolvency is low and fully provisioned.

ESI Group and its subsidiaries design, develop and sell Virtual Prototyping software. The environmental impact of these activities is, by its nature, relatively small and limited mainly to the production of paper waste and used computer equipment.

This impact is minimized by the fact that a large portion of the devices are leased from companies that resell or recycle their equipment.

The automatic fire extinguishing systems installed, where necessary, in the Company's computer rooms, do not use halon and comply with environmental standards.

To the Company's best knowledge, it does not currently and has not ever violated any environmental regulation and no legal action has ever been taken against it in relation to the environment. Furthermore, the Company's digital simulation products allow its clients to reduce the number of full scale tests (crash tests, foundry, injection, welding, etc.) and thus allow them to cut back significantly on raw materials and energy.

2.5.3. Financial risks

Exchange rate risk

See note 7.1.4 and note 7.3 to the consolidated financial statements.

Interest rate risk

See note 7.1.2, note 7.1.4 and note 7.3 to the consolidated financial statements.

Equity risk

See note 9.1 and note 5.4 to the consolidated financial statements.

Risk related to impairment of goodwill or of intangible assets

See note 3.1 and note 3.1.3 to the consolidated financial statements.

Liquidity risk

The Company has specifically reviewed its liquidity risk and considers itself to be in a position to satisfy future payment obligations.

The Group's debts are broken down by type, interest rate type and maturity in note 7.1 "Financial assets and liabilities" to the consolidated financial statements. This note also includes a description of the corresponding interest rate hedging. All loans, with the exception of leasing, are taken out in euros. The Group has integrated a short-term revolving line of credit to its syndicated line of credit in order to finance the company's recurring year-end working capital requirements. Additionally, commitments related to new financing are described in note 7.4 to the consolidated financial statements, "Commitments relating to Group financing". The Group has to adhere to several financial ratios, under penalty of early repayment.

Risk of litigation, governmental or legal action, or arbitration

With the contentious situation surrounding public finances today, an increased tax burden due to reconsideration of existing tax mechanisms, establishment of new taxes, or more aggressive tax collection could have negative consequences on the Group's net financial income.

As part of the Group's normal business in France and internationally, ESI Group is particularly concerned with issues relating to the French Research Tax Credit (CIR) and transfer pricing. The Company receives assistance in these matters from specialized external consultants. Furthermore, the Company has established the appropriate documentation for transfer pricing.

Over the last twelve months, ESI ended a tax audit in France relating to the CIR and transfer pricing. To ESI's knowledge, there has been no litigation, governmental or legal action, or arbitration that could significantly affect the Group's financial situation, business, or net financial income.

2.5.4. Legal risks

The Group has a legal affairs department divided in two divisions:

- The corporate legal affairs division, which is responsible for monitoring, researching and optimizing the Group's legal situation as well as coordinating the legal aspects of the subsidiaries' operations;
- The intellectual property division, which makes sure the Group's intellectual property rights (software code, databases, inventions and knowledge of processes, trademarks, etc.) are protected and takes all necessary measures to safeguard them (trademark registration, patent applications, confidentiality agreements, establishing exclusive rights, etc.). It is responsible for intellectual property audits when acquisitions are made and for drafting, revising, or negotiating all contracts involving customers and partners, particularly consortium agreements.

Given the nature of its activities, the risks faced by the Group pertain mainly to intellectual property.

These potential risks are as follows:

Counterfeiting of products marketed by the Group

As regards the risk of counterfeiting by third parties, no significant incidents of counterfeiting have been observed.

The passwords used to access the Group's products are generated by ESI Group no matter how the software is distributed (distributors and agents) and they are linked to the FlexNet Publisher software (formerly known as Flexlm), which represents the world standard for secure computer codes. If a way around the FlexNet code were found, ESI Group also uses a counterfeit detection tool (Vi Labs) that has gradually been incorporated into all its codes and is linked with the legal assistance service against software counterfeiting. This service has proven to be highly effective.

Risk related to claims by third parties as to the ownership of codes published by the Group

With regard to risks of third-party claims, the Company's software products are, broadly speaking, either developed within the Group or acquired in mergers or acquisitions. In rare cases, they are the result of development contracts signed with third parties.

As regards the codes developed in-house, the Group's companies retain ownership of the intellectual property under the employment contracts and supplementary provisions in accordance with labor law. Where necessary, development agreements are signed between ESI Group and its subsidiaries in charge of development in order to ensure that ESI Group is considered the owner of the intellectual property.

For software code acquired through an external growth operation, an intellectual property audit should be conduct ahead of time, beginning, if necessary, by analyzing local intellectual property laws. Furthermore, acquisition agreements always include warranties of title. This particularly allows the Company to avoid buying an empty shell or software code with too many strings attached.

Likewise, the Group relies on a systematic review process for software development contracts made with third parties, such as university partners, in order to ensure effective, risk-free transfer of intellectual property in the event that an ESI Group contract ensuring effective transfer is not used.

Contractual liabilities and damage clauses

In regards to contractual liabilities and damage clauses, the Group always refuses damage clauses and indirect liabilities (such as losses) and limits its contractual liabilities to the amount of a particular event whenever possible.

Transfers of more rights than necessary due to customers' General Purchase Conditions

The risk of improper transfers is eliminated by having all contracts reviewed by in-house intellectual property law specialists.

Prevention of undue granting of free licenses and transference of profits within R&D consortia

The intellectual property legal department has a long history of working with consortia and negotiating with them in the interests of the Group, particularly rejecting the granting of free licenses for in-house research when said research only involves using pre-existing or improved software belonging to ESI Group.

The Group therefore believes that it has the resources and processes required to adequately cover any legal risks that it may face.

3 CORPORATE GOVERNANCE

3.1. Main shareholders and stock price evolution

3.1.1. Founding shareholders

Information on founding shareholders is contained in section 1.3.4.6., Change in the breakdown of the Company's share capital over the past three fiscal years.

3.1.2. TPI survey

On April 15, 2016, the Group carried out a survey of identifiable bearer shares (TPI: *Titres au Porteur Identifiable*) on 99% of its free float (excluding treasury shares and nominative shares) which could be compared to the one realized on April 17, 2015.

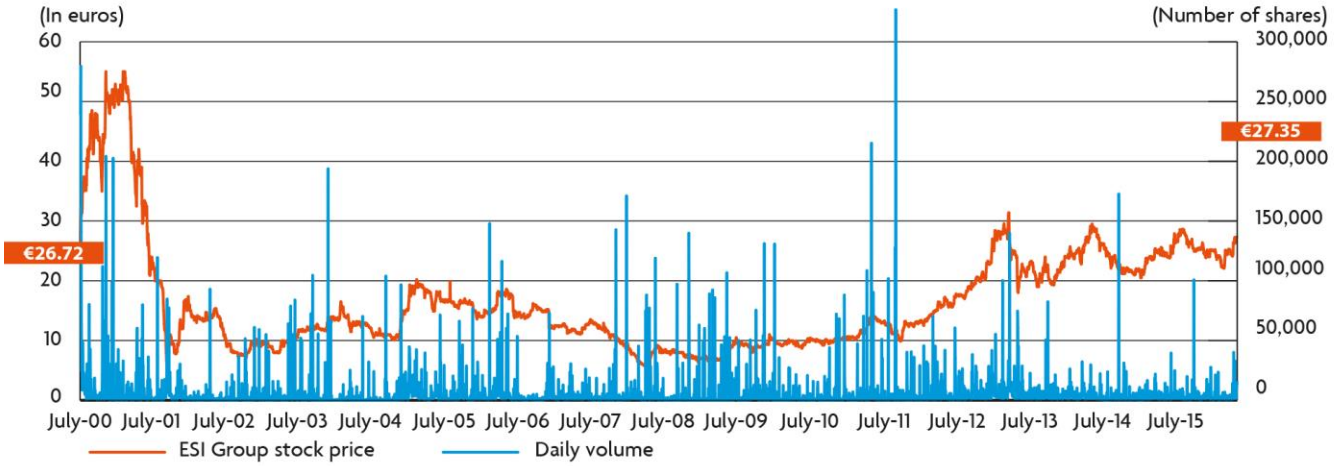
	As of April 2016		As of April 2015	
	% of free float	*% of share capital*	% of free float	% of share capital
Domestic investors	70%	37%	71%	37%
Foreign investors	18%	10%	18%	10%
Individual Shareholder	10%	5%	10%	5%
Companies	0%	0%	1%	0%

This analysis shows a stability in the capital breakdown of the Company which stays mainly composed by domestic investors.

3.1.3. Stock price evolution

The chart below shows how ESI Group's stock price has performed relative to the CAC Mid&Small and CAC 40 base 100 index since January 2012 until the end of April 2016:

The chart below shows how ESI Group's stock price has performed since its initial public offering on July 6, 2000 until April 29, 2016 and the daily volume of transactions:



3.2. Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management

The purpose of this report (the "Report") is to provide information on the composition of ESI Group's Board of Directors, the preparation and the organization of its activities and works, as well as the internal control and risk management procedures in place during the fiscal year ended January 31, 2016.

The Report was drawn up in accordance with Article L. 225-37 of the French Commercial Code.

The Report is submitted to the Company's Combined General Meeting of Shareholders to be held on July 21, 2016. It was first submitted to the Board of Directors for approval on April 8, 2016. The Report was prepared with the assistance of the Company's executive management, Legal Affairs Department, Human Resources Department and Finance and Administration Department.

This Report covers the following topics:

- Reference to a corporate governance code;
- Composition, preparation and organization of the activities of the Board of Directors during the fiscal year ended January 31, 2016;
- Internal control and risk management procedures;
- Limits on the powers of the Chief Executive Officer and the Chief Operating Officers;
- Principles and rules applied to determine the compensation and other benefits of the corporate executive officers;
- Special provisions related to the participation of shareholders in the Annual General Meeting.

First of all, it is noted that the Company's Board of Directors decided, at its meeting of April 15, 2010, to refer to the MiddleNext Governance Code for Small and Midcaps published in December 2009 (hereinafter referred to as the "Corporate Governance Code") as Company's set of standards and agreed to comply with the recommendation of the aforementioned Code. This Code, which adapts the principles of good governance set forth in the AFEP/MEDEF Code for small- and mid-sized companies, seemed better suited to the Company's size and capital structure.

The MiddleNext code is available on the website www.middlenext.com.

Pursuant to the Corporate Governance Code, the Company worked, throughout the 2015 fiscal year, (i) to take the "*Points to watch out for*" set out in the Code into account and (ii) to improve its practices in order to comply with the recommendations of the Corporate Governance Code. In this respect, it is noted that, in compliance with the "comply or explain" principle, as well as AMF Recommendation no. 2013-20, a cross-reference table given below shows the different recommendations of the Corporate Governance Code followed by the Company.

After comparing its practices to the recommendations of the MiddleNext Code, the Board of Directors made the following observations:

- As of this date, the Board of Directors consists of seven members, including four independents and three women.
- The Extraordinary General Meeting of July 23, 2013 amended the term of office of Directors to four years. This decision was made to ensure the independence and long-term commitment of Board members, by submitting the renewal of their appointments to the Company's shareholders more frequently. The current tenures will continue to the date provided for when the current Directors first came onto the Board, so that their duration will not be amended before they expire. The

shorter term applies only to new appointments and to those renewed starting with the Combined General Meeting of July 23, 2013 (R. 10).

- With regard to the presence of independent Directors, it should be noted that the Board includes four independent members. This figure is significantly higher than that recommended by Corporate Governance Code, which recommends two such members in case a Board consists of more than five members. Furthermore, the criteria for independence adopted conform to those laid out in the MiddleNext Code (R. 8).
- As in 2014, the assessment of the Board's work during the reporting period was conducted internally and pursuant to the recommendations of the Corporate Governance Code (R. 15). This assessment was carried out using a questionnaire sent to each Board member and the summary was presented at Board Retreat.
- The rules of procedure in effect are those approved by the Board meeting of April 25, 2013 and updated by the Board meeting of April 8, 2016, and comply with the recommendation issued by MiddleNext (R. 6).
- The compensation paid to the corporate executive officers is proposed and annually reviewed by the Compensation, Nomination and Governance Committee, which is composed primarily of independent members. This Committee makes recommendations to the Board of Directors then officially determines compensation amounts. This process ensures the fairness and transparency of compensation, as recommended under the Corporate Governance Code (R. 2).
- At this point no severance packages or supplementary retirement plans have been established for the corporate executive officers. In general, there are no compensation policies in place within the Company likely to have an impact on a takeover bid (in accordance with recommendations R. 3 and R. 4).
- In terms of the organization of senior management, since 2013 Alain de Rouvray, Chairman and Chief Executive Officer, can rely on two Chief Operating Officers, Vincent Chaillou, in charge of the Edition Operations, and Christopher St.John, in charge of the Field and Support Operations.

TABLE SHOWING THE APPLICATION OF RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

Content of the recommendation	Application by the Company	**Paragraph.**
R. 1. Combined employment contract and directorship	Recommendation followed by the Company	3.2.4.2.
R. 2. Definition and transparency of compensation paid to corporate executive officers	Recommendation followed by the Company	3.2.4.
R. 3. Severance pay	Recommendation followed by the Company	3.2. & 3.2.4.6.
R. 4. Supplementary pension plans	Recommendation followed by the Company	3.2. & 3.2.4.6.
R. 5. Stock options and grant of free shares	Recommendation followed by the Company	3.2.4. & 3.2.4.2.
R. 6. Establishment of Board rules of procedure	Recommendation followed by the Company	3.2. & 3.2.1.1.3.
R. 7. Code of Ethics of the Board of Directors	Recommendation followed by the Company	3.2.1.1.3.
R. 8. Composition of the Board - Presence of independent members on the Board	Recommendation followed by the Company	3.2. & 3.2.1.1.
R. 9. Selection of Directors	Recommendation followed by the Company	3.2.1.1.1.
R. 10. Terms of office of members of the Board	Recommendation followed by the Company	3.2. & 3.2.1.1.
R. 11. Communication of information to members of the Board	Recommendation followed by the Company	3.2. & 3.2.1.1.3.
R. 12. Establishment of committees	Recommendation followed by the Company	3.2.1.2. & 3.2.1.3.
R. 13. Meetings of the Board and the Committees	Recommendation followed by the Company	3.2.1.2.
R. 14. Compensation of Directors - Directors' fees	Recommendation followed by the Company	3.2.1.2. & 3.2.4.
R. 15. Assessment of the work done by the Board	Recommendation followed by the Company	3.2. & 3.2.2.1.2.1.

3.2.1. Composition, preparation and organization of the activities of the Board of Directors

3.2.1.1. The Board of Directors

In accordance with Article 10 of the articles of association, the Company is administered by a Board of Directors composed of at least three members and no more members than that allowable under the law, unless a decision is made to increase this maximum in the event of a merger.

The Board of Directors has an ongoing objective to increase the diversity and complementarity of skills required for service on the Board and to ensure the balanced representation of all shareholders and women.

Members of the Board of Directors are appointed by an Annual General Meeting, based on the recommendations of the Board of

Directors, for a term of four years, this term complying with the recommendations of the Corporate Governance Code (R. 10). These duties expire at the end of the Annual General Meeting called to approve the financial statements of the previous fiscal year and held during the year in which the term of the Board member in question is scheduled to expire. Members of the Board of Directors may be re-elected. They may be dismissed at any time by the Annual General Meeting. People over the age of 80 may not be appointed as members of the Board of Directors if their appointment would bring the number of Board members over this age to over one-third. If this fraction is exceeded, the oldest Board member shall be deemed to have resigned automatically at the end of the Annual General Meeting called to approve the financial statements for the fiscal year during which the limit was surpassed.

Four of the seven members of the Board of Directors are independent members, in compliance with the Corporate Governance Code, which recommends that there be at least two independent members on the Board (R. 8). Board members' "independence" is reviewed by the Board of Directors, which deliberates this matter at the recommendation of the Compensation, Nomination and Governance Committee. The selected criteria and the review of the situation of each Board member are discussed at least once a year and published in this report.

3.2.1.1.1. Composition of the Board of Directors

The Board of Directors is currently made up of the following seven members:

First name – Last name	Position	Starting date	End of term	Age
Mr Alain de Rouvray	Chairman and Chief Executive Officer	1991	AGM 2019	72 years old
Mr Vincent Chaillou (2)	Board member	2004	AGM 2016	66 years old
Ms Cristel de Rouvray (1)	Board member	1999	AGM 2017	39 years old
Mr Charles-Helen des Isnards	Independent board member	2008	AGM 2017	71 years old
Mr Éric d'Hotelans	Independent board member	2008	AGM 2019	65 years old
Ms Véronique Jacq	Independent board member	2014	AGM 2018	48 years old
Ms Rajani Ramanathan	Independent board member	2014	AGM 2018	49 years old

(1) Ms Cristel de Rouvray is the daughter of Mr Alain de Rouvray, Chairman and Chief Executive Officer.
(2) The renewal of the appointments of these Directors is submitted for approval by the Combined General Meeting of July 21, 2016

In August 2015, the members of the Board of Directors were saddened to learn of the passing of Mr Jacques Dubois, Director since 1991. Mr Dubois graduated from the École des Ponts et Chaussées de Paris in 1968 and received a PhD in civil engineering from the University of California, Berkeley in 1972. In 1973, he co-founded ESI SA where he served as Research Director from 1973 to 1990.

Given that the number of Directors remains greater than the legal and statutory minimum, the Board had decided not to appoint a provisional replacement for Mr Dubois. However, the Board decided at its May 18, 2016 meeting that it would fill the open seat by nominating Mr Yves de Balmann to serve as a new Director at the General Meeting that will be held on July 21, 2016.

The following provides a summary of the changes in the Board of Directors' composition that occurred over the course of the 2015 fiscal year as well as the changes expected to be made over the course of the current fiscal year:

	Fiscal year 2015	Fiscal year 2016
Resignation	Mr Jacques Dubois	N/A
Reappointment	Mr Alain de Rouvray Mr Jacques Dubois Mr Éric d'Hotelans	Mr Vincent Chaillou
Appointment	N/A	Mr Yves de Balmann

Board members personal information

Alain de Rouvray, 72 years old, Chairman and CEO

Founder of ESI Group Company, Alain de Rouvray has been the Chairman and Chief Executive Officer since its creation in 1991. He holds an engineering degree from Ecole Centrale de Paris (1967), a degree from La Sorbonne in Economic sciences (1967), and a Ph.D. in civil engineering from the University of Berkeley (1971). Alain de Rouvray started his career as Research Engineer at Ecole Polytechnique (Solid Mechanics Laboratory) in 1972; he then became Director of the Advanced Mechanics Department for the international software subsidiary of CISI Group from 1972 to 1976. In 1973, he founded ESI SA and was the COO and Commercial Director from 1973 to 1990.

Vincent Chaillou, 66 years old, Board member and COO

Vincent Chaillou is the COO of the Company in charge of the Edition Operations unit. He is also CEO of ESI Software India and ESI US R&D. Vincent Chaillou holds a PhD in civil engineering from the Ecole des Ponts et Chaussées (1973) and an engineering degree from Ecole Polytechnique (1971). Before joining ESI Group in 1994, he was General Manager of the AEC business unit of Computervision for worldwide operations (which has now merged with PTC). During his 16 years with Computervision, he served in several management positions in sales, marketing and general management, specifically of Asia-Pacific. From 1994-1998, he was Regional Vice-President for the American territory within ESI Group and CEO of ESI Software.

Cristel Anne de Rouvray, 39 years old, Board member

Graduated from Stanford University and from London School of Economics, where she obtained a PhD in economics, Cristel de Rouvray is a resident of the United States. She shares her time between the position of Board member at ESI Group and the position of consultant at College Track in Oakland, California.

Charles-Helen des Isnards, 71 years old, Board member

After an international carrier within the BUE, the UBAF and the CIC Group, in France and in Italy, Charles Helen des Isnards contributed to the creation of CIC Finance as member of the Board. He was a Deputy Chief Executive Officer of CM-CIC Corporate Advisory until September 2012. He graduated from the Paris Institute of Political Studies and has a degree in law.

Éric d'Hotelans, 65 years old, Board member

Eric d'Hotelans held positions in the information technology sector, and first at Tandem (US computer manufacturer, taken over by HP), where he was the director of the Europe/Finance Business Unit. In 1998, he decided to join CMG, one of the oldest European IT Services companies, as a member of the executive committee, where he created CMG France (1,200 employees), the group's French subsidiary, of which he became Chairman and CEO. He left the CMG group in 2003, following its acquisition by UK group Logica. He then participated in the development of an investment fund based in Riyadh (Saudi Arabia), specializing in the research and analysis of IT-related activities. In 2003, he joined the M6 group's Board of Directors as Deputy Chairman, in charge of management activities and in 2009 took the responsibility of the group's internet sales. Since 2009 he is Chairman and CEO of Home Shopping Services SA.

Véronique Jacq, 48 years old, Board member

Civil Engineer, graduated from the Ecole des Mines de Paris (French engineering school), Véronique Jacq began her career in the Nuclear Safety Authority (1994-2000). In 1997, she was appointed deputy director in charge of monitoring the safety of EDF nuclear power plants. In 2000, she joined Anvar (now OSEO) as Director of Business Development. Then in 2003, she joined the 2nd Chamber of the French Audit Office, where she was responsible for auditing financial statements and management of companies and government agencies as well as international organizations. In 2007, she joined CDC Entreprises, a CDC subsidiary company specialized in private equity, and in 2010 became Deputy General Manager in charge of Business Development. In 2012, she took responsibility for investment in digital technology first in CDC Entreprises and then in 2013 in Bpifrance.

Rajani Ramanathan, 49 years old, Board member

Rajani Ramanathan has held a variety of positions, from running her own companies in India to scaling a multi-billion company from a startup to a fully operational business. She currently serves as an advisor or investor in several technology startups including Realine Technology, Growbot, Medium, Invicara, Pipefy, Wizcal, SaferMobility and Trendbrew. She joined Salesforce.com in 2000, when it was a small startup, and she helped built it into a high growth Fortune 500 company during over 14 years. In her most recent role as Executive Vice President of "Technology & Products", her responsibilities spanned from delivering highly innovative products, while ensuring every employee can do the best work in their careers. In 2014, she was awarded the YWCA TWIN (Tribute to Women and Industry) Award, which has long been considered one of Silicon Valley's most prestigious awards honoring women who exemplify leadership excellence in executive-level positions.

For further information on the management responsibilities of the Board members outside the Company, see the list under appendix I to this report.

Pursuant to the Board members' short biographies presented above which highlight education, professional experience and offices held and exercised within other companies, each Director has extensive expertise in business management. Furthermore, most of Directors are perfectly familiar with the Company's area of technology.

Independent members of the Board of Directors

There are no potential conflicts of interest within the administrative and management bodies or executive management with respect to their responsibilities to the Company and their personal interests.

The criteria used by the Compensation, Nomination and Governance Committee and then by the Board of Directors to deem a Board member independent and to prevent potential conflicts of interest between the Board Member and the management, the Company or its Group are as follows, in accordance with the recommendations of the Corporate Governance Code (R. 8):

- They must not be a salaried employee or corporate officer of the Company or of a company in the Group, and must not have held such a position within the last three years;
- They must not be a significant client, supplier or banker of the Company or of a company in the Group, or a client, supplier or banker for whom the Company or its Group represents a significant share of its business;
- They must not be a reference Shareholder of the company;
- They must not have a close family relationship with a corporate officer or reference Shareholder;
- They must not have been an auditor of the company in the course of the previous three years.

As for Board members who hold a significant number of shares in the Company, the Board has recommended that they be considered independent as long as they do not take part in control of the Company. If Board members come to hold more than 10% of the Company's capital or voting rights the Board of Directors must systematically review their status as an independent, at the recommendation of the Compensation, Nomination and Governance Committee, in consideration of the Company's capital structure and the existence of any potential conflicts of interest.

Consequently, the following individuals are considered independent directors:

- Mr Charles-Helen des Isnards;
- Mr Éric d'Hotelans;
- Ms Véronique Jacq;
- Ms Rajani Ramanathan.

Feminization and internationalization of the Board of Directors

The Board of Directors has seven members, four men and three women. Thus the proportion of women currently reaches 43%, which is higher than the percentage required by French Law No. 2011-103 of January 27, 2011, relative to the balanced representation of women and men on Boards of Directors and Supervisory Boards, providing a 40% quota of proportion of women during the General Meeting of 2017.

Two Board members, Ms Cristel de Rouvray and Ms Rajani Ramanathan, are foreign nationals.

3.2.1.1.2. Chairman of the Board of Directors

In accordance with Article 11 of the articles of association, the Board of Directors elects one of its members, who must be a private individual, to serve as Chairman for a term that may not exceed his or her term as Board member. The Board of Directors also determines the compensation to be paid to the Chairman.

People over the age of 80 may not be appointed Chairman of the Board of Directors. If the current Chairman comes to exceed this age, he or she will automatically be deemed to have resigned.

Mr Alain de Rouvray, one of the Company's co-founders, is Chairman of the Board of Directors. The Board of Directors believes that it is appropriate for Mr Alain de Rouvray to serve both as Chairman and Chief Executive Officer.

The General Meeting on July 22, 2015 decided to reappoint Mr Alain de Rouvray for a term of four years which expire during General Meeting of 2019.

3.2.1.1.3. Rules of procedure of the Board of Directors

The Board of Directors, under the leadership of the Chairman, approved a set of rules of procedure for the Board on November 26, 2009. These rules of procedure were revised and approved by the Board of Directors on April 25, 2013 to account for changes in corporate governance best practices and translated into English. The Board of Directors on April 8, 2016 approved an update of the rules of procedure in order to take into account in particular the latest regulatory changes concerning the scope of the missions of the Audit Committee.

The rules of procedure define the operational rules of the Board of Directors and aims to improve working methods and the procedures used to keep members informed. It also specifies the rules and powers of the Company's Board of Directors in line with the provisions set forth in the articles of association. The internal regulations can be consulted on the Company's website, (www.esi-group.com).

In accordance with the Corporate Governance Code (R. 6), these rules of procedure specify the following items in particular:

- The composition of the Board of Directors and the procedure for determining whether a Board member is an independent member;
- The members' duties and responsibilities (especially in terms of conduct and ethics);
- The operational procedures of the Board of Directors (frequency of meetings, procedure for calling meetings, procedure for notifying members, use of videoconferencing technology) and the Committees;
- The rules relevant to the Board members' compensation;
- The role of the Board of Directors and the Committees;
- The access to the information and documents necessary to carry out their duties so that members are informed sufficiently in advance.

For the Code of Ethics of the members of the Board, in its internal regulations the Board chose to refer to the Director's Charter proposed by the *Institut Français des Administrateurs* (French Institute of Directors).

3.2.1.2. Duties and powers of the Board of Directors

Responsibilities of the Board of Directors

The Board of Directors is and must remain a collegial body that collectively represents all Shareholders. It must act in keeping with the Company's corporate interests under any and all circumstances. The Board of Directors determines the guidelines for the Company's operations and oversees the application thereof. Subject to the powers expressly given, under the law, to General Meetings, the Chairman and Chief Executive Officer and the Chief Operating Officers and in keeping with the corporate purpose, the Board of Directors may handle any matter relevant to the Company's operations and meets to decide all matters within its remit.

The Board of Directors has the following responsibilities in accordance with the law:

- Preparing for and calling Annual General Meetings;
- Preparing the wording of the resolutions to be voted on by the Shareholders;
- Choosing the executive management structure of the Company by opting to either have the Chairman of the Board of Directors serve as Chief Executive Officer or another individual appointed by the Board of Directors;
- Determining the powers that may be delegated to a subsidiary's General Manager and setting monetary limits on these powers;
- Preparing separate financial statements consolidated annual financial statements and interim financial statements, the annual management report and the interim financial report, as well as the approval thereof;
- Approving the Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management;
- Approving the agreements referred to in Article L. 225-38 of the French Commercial Code;
- Authorizing guarantees and similar undertakings;
- Appointing or dismissing the Chairman and Chief Executive Officer and the Chief Operating Officers, and supervising their management of the Company;
- Creating committees within the Board of Directors, establishing the rules of procedure that set out their responsibilities and operational procedures, appointing and determining the compensation of the members of these committees;
- Distributing directors' fees.

Decisions and meetings of the Board of Directors

The Board meets as often as required for the interests of the Company. The frequency and length of Board of Directors' meetings must be such as to allow members to conduct an in-depth review and discussion of the topics falling under its responsibility. The same principle applies to meetings of Board Committees.

In accordance with the Corporate Governance Code, it is recommended that the Board of Directors meet at least four times per year. During the 2015 fiscal year, the Board of Directors met nine times in compliance with recommendation R. 13 under the Corporate Governance Code.

Other than the mandatory dates on which the Board must meet to:

- Draw up the annual financial statements and prepare for the Annual General Meeting called to approve these financial statements;

- Report on performance for the first half of the year;
- Discuss the financial position, the cash position, the Company's obligations and the share buyback program.

The Board of Directors must also meet, when convened by the Chairman, in the event of major operations such as the following:

- Business acquisitions or divestitures;
- Significant operations outside the Group's established strategy;
- Organic growth restructuring or restructuring operations.

Before each Board meeting, the Board members each receive a dossier containing the agenda for the meeting, the draft minutes from the previous meeting and any pertinent document for each of the items on the agenda. All topics addressed during the meeting are reviewed and discussed in depth among the members before being put to a vote following the discussion.

The draft minutes of each Board of Directors meeting are formally approved and signed by the Board members during the subsequent meeting. The minutes relate the discussions, specify the decisions made and mention the questions and hesitations raised.

Furthermore, during each meeting any major facts or events pertaining to the Company's operations or its general situation arising since the previous meeting are brought to the Board members' attention.

The Board of Directors' meetings are not valid unless at least half of its members are in attendance. The Board’s decision are made by majority vote among the members present or represented. In the event of a tie, the Chairman of the meeting casts the deciding vote. In accordance with the provisions of the articles of association, Board members who take part in the Board meeting via videoconference or teleconference are considered present for the purpose of determining whether a quorum is present. This provision does not apply to decisions for which the French Commercial Code expressly bars the use of these methods.

An attendance sheet is drawn up and signed by the Board members taking part in the Board of Directors' meeting.

The Board of Directors met nine times, on the dates listed below, during the previous fiscal year, with an average attendance rate of 87% by its members:

Date	Board member attendance
March 10, 2015	75%
March 26, 2015	100%
April 14, 2015	100%
July 3, 2015	75%
July 22, 2015	88%
September 15, 2015	86%
October 26, 2015	86%
December 16, 2015	86%
December 29, 2015	86%

In 2015, aside from approving the budget for the fiscal year, reviewing and monitoring this budget, drawing up the annual and interim financial statements, preparing for the General Meeting, examining forward planning documents during the first and second half of the year, reviewing any agreements like those defined under Article L. 225-38 of the French Commercial Code and other ongoing management decisions, the Board of Directors' focused primarily on:

- Establishing the terms of and implementing a share buyback program approved by the Combined General Meeting of July 22, 2015;
- Approving the procedure to determine directors' fees;
- The Company’s funding;
- Corporate governance: reappointment of a Board member;
- The mergers and acquisitions activities.

As part of this work, the Board of Directors relied on the work and recommendations of the Committees established within the Company. These specialized committees were established in accordance with the guidelines set forth in the corporate governance code (R. 12).

3.2.1.3. Specialized committees

The purpose of the committees is to optimize the discussions of the Board of Directors and to ensure that the Board is prepared to make its decisions. The Committees thus draw up proposals, recommendations and opinions relative to their respective areas at each of their meetings.

The following Committees have been formed within the Company:

- The Strategic Committee;
- The Compensation, Nomination and Governance Committee;
- The Audit Committee; and
- The Technology and Marketing Committee.

The specialized committees are currently composed in the following manner:

		Specialized committees of the Board of Directors			
First name – last name	Independence	Strategic Committee	Compensation, Nomination and Governance Committee	Audit Committee	Technology and Marketing Committee
Mr Alain de Rouvray		X	X		X
Mr Vincent Chaillou		X			X
Ms Cristel de Rouvray		X	X		
Mr Charles-Helen des Isnards	X	X	X	X	
Mr Éric d'Hotelans	X		X	X	
Ms Véronique Jacq	X			X	X
Ms Rajani Ramanathan	X		X		X

X – Chairman of the Committee.
X – Member of the Committee.

A secretary, Ms Corinne Romefort-Régnier, attends also the meetings.

Strategic Committee

As defined in the Rules of Procedures of the Board of Directors, the Strategic Committee is in charge of preparing the deliberations of the Board of Directors on the major strategic challenges of the Group, especially development axes and financing as well as examining the evolution of the Group's business portfolio.

The Strategic Committee met four times during the previous year with an average attendance rate of 90%.

Compensation, Nomination and Governance Committee

As defined in the rules of procedures of the Board of Directors, composed of five members including three independent, the mission of the Compensation, Nomination and Governance Committee is to firstly prepare the decisions of the Board of Directors concerning the compensation of executive officers and the policy for granting stock options and / or purchase of shares (and, where appropriate, policy of free shares) and secondly to prepare changes in the composition of the Company's governing bodies.

A special assignment was given to Ms Cristel de Rouvray with regard to the succession and capital structuring plan and to organizing and managing the annual Board Retreat, as well as to her participation in the governance of certain Group subsidiaries. She received a special Director's fee for this particular assignment.

In addition, special assignments were given to Mr Charles-Helen des Isnards as part of the transition of the Administration and Finance Department and financial transactions. He received a special director's fee for said assignments.

The Compensation, Nomination and Governance Committee met four times throughout the 2015 fiscal year with an average attendance rate of 100%.

Audit Committee

According to the regulation in force, Board members in management roles within the Company are not allowed to serve as members of the Audit Committee, and all members are independent. Besides, the majority of its members has expertise in the area of finance or accounting.

The Chairman of the Company is invited and attends the meetings of the Audit Committee.

According to the regulation in force the Audit Committee monitors issues relating to the preparation and control of accounting and financial information.

Without prejudice to the powers of the bodies responsible for the administration, management and supervision, this committee is responsible in particular for the following tasks:

- It monitors the process of preparing financial documents and, if necessary, makes recommendations to ensure their integrity.
- It monitors the effectiveness of internal control and risk management as well as, if necessary, internal audit in terms of financial and accounting information processing without causing harm to the independent nature of systems in place.
- It issues a recommendation for the auditors to be appointed by the General Meeting; it also issues a recommendation when the contract with auditors is to be renewed.
- It monitors the auditors as they fulfill their duties.
- It ensures the auditors' independence.
- It regularly reports to the Board of Directors regarding its activities. It also reports on the results of certifying financial statements, how that certification has contributed to the integrity of financial information, and the role that the committee played in the process. The committee immediately reports any problems that arise.

The Audit Committee met seven times throughout the 2015 fiscal year with an average attendance rate of 100%. In most cases, the statutory auditors are also invited to attend these meetings.

Technology and Marketing Committee

The Technology and Marketing Committee is in charge of advising the Board on aspects of product strategy, the organization of the publishing company in particular the methodologies of product management and R&D, and evaluate potential partnerships or acquisitions related to technology and marketing. The Committee also advises the Board of Directors on all aspects of commercializing solutions.

The Technology and Marketing Committee met four times throughout the 2015 fiscal year with an average attendance rate of 100%.

3.2.2. The internal control and risk management procedures

3.2.2.1. Control environment

3.2.2.1.1 General structure

ESI Group is a multinational corporation that includes 34 subsidiaries (the "subsidiaries"), 30 of which are headquartered outside of France.

To ensure that business operations and management activities run efficiently, that objectives are met and that the Group's control system is effective, executives are determined to harmonize the operational rules of the subsidiaries. This also applies to internal control activities and is reflected in the gradual standardization of information systems and processes throughout the organization. This is facilitated by the fact that the subsidiaries' business activities are similar to those of the parent company, ESI Group SA, as regards the distribution of products.

Given current constraints, namely in terms of the size of the subsidiaries, available human resources and regulations that differ from country to country, the structure is based on the following key factors:

- A matrix-based structure organized around business activities and markets that ensures Group-wide sharing of information;
- A centralized organization to manage the Group's business activities;
- Limited hierarchy to streamline decision-making processes;
- A relatively small size for efficient communication among the various departments.

The Company considers internal control processes as intended to provide reasonable assurance that the following objectives are met; the principles implemented cannot provide absolute control of risks:

- Ensuring that management acts and operations, as well as employee behavior, are in keeping with the guidelines laid down by the Company's management and the operational departments overseeing the various business activities and countries, as well as any applicable laws and regulations and the Company's core values and internal rules;
- Anticipating and managing risks that stem from the Group's business activities and risks or fraud, especially in the areas of ac-counting and finance;
- Verifying that the accounting, financial and management information reported to the corporate bodies, the Shareholders or to third parties accurately reflect the Company's position and the business situation.

3.2.2.1.2. Personnel responsible for internal control

3.2.2.1.2.1. Internal personnel

The Board of Directors

The Board of Directors is responsible for the Company's policies in relation to risk assessment, for the implementation of an internal control system suitable to manage these risks and to monitor the effectiveness of this system. This policy encompasses a system of checks and verifications, financial management procedures, operational monitoring and compliance monitoring..

Group Executive Committee

The Group Executive Committee oversees the internal control policy. As a rule, the latter meets once a month.

The Group Executive Committee is composed as follows:

First name – Last Name	Function
Alain de Rouvray	Chairman and Chief Executive Officer of the Company
Vincent Chaillou	Board member and Chief Operating Officer in charge of the software publishing Activity
Christopher St.John	Chief Operating Officer in charge of the distribution and support Activities
Laurent Bastian	Chief Financial Officer
Mike Salari	Executive Vice President, Engineering Services
Peter Schmitt	Executive Vice President, Marketing and Sales
Christian Matzen (1)	Executive Vice President, Immersive Virtual Prototyping
Marco Gremaud (1)	EMEA Managing Director
Cristian Tanasescu (2)	Executive Vice President, Systems Modeling and Data Analytics
Corinne Romefort-Régnier	Corporate Governance Director, Secretary of the Committee
(1) Members of the Committee since February 1st, 2016 (2) Member of the Committee since March 1st, 2016	

The Board Retreat

The Board Retreat is held once per year to bring together the members of the Board of Directors, the Group Executive Committee and employees of the Company or its subsidiaries depending on the topics to be discussed. Its aim is to assess the activities of the Board of Directors and the specialized committees, to review ongoing strategic matters and to define specific objectives to be achieved during the coming year, which are then submitted to the Board of Directors for approval. The Board Retreat also examines the summary of the Board of Directors' and Specialized committees' self-assessment reports.

For 2015 this meeting took place in September and for 2016 it is planned for September 2016.

Operational departments

In particular, these departments supervise business processes and manage projects.

Their role is to oversee the implementation of procedures in order to guarantee:

- Effective business processes: identification of business opportunities, sales and distribution network, partnerships, responsiveness, evaluation of economic interest, negotiation and signing of contracts, and profitability monitoring;
- Effective project management: evaluation of technical feasibility, management and leadership of teams, compliance with specifications, customer satisfaction tracking and customer service.

Functional departments

The functional departments are responsible for formalizing internal control procedures in their respective areas and coordinating and applying these procedures.

a) The Administration and Finance Department

The Administration and Finance Department handles implementation of the internal control policy on a financial level by:

- Establishing the procedures making up the internal control system;
- Holding meetings between the managers of the major business units and the main entities of the Company in order to review responsibilities and the manner in which the internal control system should be organized across the various areas.

The Administration and Finance Department encompasses the following units:

- The Accounting and Consolidation Unit, responsible for:
  - Verifying and recording transactions;
  - Closing the financial statements at the end of each period;

- Consolidating Group-wide information;
- Ensuring compliance with legal, tax-related and labor-related obligations.

- Management Control, in charge of:
  - Preparing and monitoring the budget;
  - Issuing periodic reports;
  - Internal control on both an operational and financial level.
- Cash management, in charge of:
  - Managing cash flows;
  - Project financing;
  - Hedging currency and interest rate risks.
- Information Systems Department (ISD).

b) The Legal Affairs Department

The Legal Affairs Department is divided into two divisions:

- The corporate legal affairs division, which is responsible for monitoring, researching and optimizing the Group's legal situation as well as coordinating the legal aspects of the operations of the Group's subsidiaries;
- The intellectual property division, which makes sure the Group's intellectual property rights are protected by reviewing, writing, or negotiating various contracts with customers and partners in the industry, and governmental bodies or academic institutions.

Management of known disputes is handled by third-party experts under the supervision of the Legal Affairs Department. The legal department takes an active role mergers and acquisitions (e.g. corporate audits, intellectual property audits, participation in acquisition agreement negotiations).

c) The Human Resources Department

Working closely with Senior Management, ESI Group Human Resources Department assists the Company's strategy by factoring in employer-employee considerations.

The policy of ESI Group Human Resources Department has four main components:

- Personnel management;
- Performance management;
- Compensation management;
- Advising line managers.

Personnel management includes the following activities and initiatives, whose objectives are to:

- Ensure that all legal and regulatory requirements are complied with;
- Administer payroll and personnel files;
- Oversee and lead labor relations;
- Ensure that employment reporting is carried out and to produce performance indicators;
- Ensure that employees are kept properly informed;
- Ensure that information is passed to senior management;
- Develop the HR procedures in the Group.

Performance management consists of attracting, integrating, retaining and developing each employee's highest performance level and ensuring that it is aligned with the Company's strategy.

- Hiring: employment management: to anticipate the skills needed, both qualitatively and quantitatively;
- Training: needs identification, preparation of a training plan and provision of in-house and external training courses;
- Performance evaluations: employee reviews, personal development plans, identification of potential, career planning and promotions.

Compensation management consists of coordinating and overseeing the Group's compensation policy and:

- Ensuring the process of wage and salary adjustments, with respect to time frames, budgets and reporting;
- Leading the annual process of setting and paying variable compensation;
- Overseeing the stock options, free share awards and company savings programs in the Group;
- Preparing all the items needed by the Company's governance bodies (such as the Compensation Committee)
- Ensuring that employee and employment data are reported from the subsidiaries using the HR IS.

Advising line managers: fostering independence among line managers on employment issues by helping them on a daily basis, in the field and by making available to them services tailored to their specific needs.

The Group Human Resources Department sets the guidelines for the Group's human resources policy, broken down into operational objectives for the regional directors of human resources. The latter coordinate the implementation of these objectives in collaboration with a team of HR operating managers located in each country and with support from the central human resources department.

3.2.2.1.2.2. External personnel

Statutory auditors

The statutory auditors, who certify the regularity, truthfulness and the fair view of the financial statements provided to the Shareholders at the balance sheet date may give opinions and recommendations regarding the internal control system applicable to the preparation of financial information as part of their audit of the financial statements.

Legal counsel

The Company uses the services of a renowned law firm for dispute management and tax advising. The Company also calls on specialists from time to time to review the legal aspects of complex mergers and acquisitions.

3.2.2.2. Organization of internal control

The increasing globalization of our business and the cross-organizational nature of projects involving international interactions of increasing complexity and speed have highlighted the need to improve the Group's ability to respond quickly in its methods and tools for operational management, both centrally and in the subsidiaries.

The Administration and Finance Department is organized in a way to ensure internal control through the following three levers:

- An organization and network of local financial controllers located in most of the Group's subsidiaries;
- Centralized tools and data;
- Processes that arrange for the reporting up of financial data and its control.

A network of financial controllers

This network makes it possible to cover all aspects of finance at the local level and to pass the statutory financial information and reporting data up to central staff.

The financial control system for the Group's subsidiaries is implemented by a network of some fifteen local financial controllers spread across three regions: EMEA, Asia and the Americas, each region being overseen by a regional financial controller. Each local and regional financial controller, while operationally attached to his or her local manager (the person in charge of the local entity) is hierarchically and functionally attached to the Administration and Finance Department and, ultimately, to the Group Director of Administration and Finance.

These local controllers head up a local team of financial, accounting or administrative staff (from one to three depending on the size of the entity) in order to carry out all local financial control tasks. In the case of smaller entities, local outside firms handle financial controls under the management of the regional financial manager.

Added to this network is a central team of six financial controllers divided over the three principal business lines of the Group, namely Edition, Distribution and Support.

The management information system

Financial control relies on a management information system consisting of the following centralized tools and databases:

- A single commercial database (SalesForce) serves as the backbone of the organization and internal control system for sales. These data flow into a single database (NCA) for financial purposes to determine monthly revenues and the order book;
- A financial consolidation tool, Talentia CPM, which enables the Company to centralize the financial data from the various accounting departments of subsidiaries. It should be noted that the subsidiaries account for their operations using their own accounting systems and provide the correct reporting of data to the parent company using consolidation packages which are all centralized and processed by the Talentia tool;
- An HR data management tool called HR-Information System (HR-IS base) allows consolidation at the Group level of the data relating to salaries as well as to headcount. In particular, this tool allows the monitoring of steps of the hiring procedure and establishing information for every manager allowing him or her to manage his or her team better.

HR-IS data are part of the information behind the financial reporting about employees.

The Information Systems Department launched several projects to improve and optimize these tools.

The main processes for monitoring accounting and financial information

The Group prepares consolidated financial statements on a quarterly basis. Its revenues are also published on a quarterly basis, with income statements published twice a year. A Group-wide budget is established at the beginning of the fiscal year and monitored on a monthly basis.

Consolidation process

The process to prepare the consolidated financial statements follows procedures that make it possible to centralize the accounting and financial data coming from each entity with the Group. These procedures include:

- A reporting schedule and calendar of tasks to be carried out by personnel;
- The use of a specialized consolidation software application;
- Separation of the preparation of consolidated financial information, performed by the consolidation director, and the control activities performed by the central financial controllers and the Chief Financial Officer;
- Assistance from accounting experts for certain complicated, technical issues, especially in relation to business outside of France;
- A review of the interim and annual financial statements by statutory auditors, the Audit Committee and Board of Directors.

Budget monitoring and reporting process

The yearly budgets are prepared at the start of the fiscal year in accordance with the assumptions in the three-year business plan established in year N-1 and with the five-year strategic objectives redefined annually by senior management. Throughout the year a monthly reporting system enables us to:

- Monitor the budget so as to track the amount, nature and allocation of expenses versus the current year budget;
- And make monthly forecast updates so as to predict firstly the earnings of the first half year and secondly those of the second half year.

Management Control thus provides key management indicators used to monitor the Company's performance. These indicators, reported to executives, provide the information necessary to oversee the Company. They include the following four indicators:

- Orders in the Licensing and Service Divisions;
- Output and backlog of the Service Division;
- Change in headcount and in the average personnel costs;
- The cash position and three-month projections.

In conjunction with the budgeting and reporting process, the Company has implemented a performance unit-based structure with business unit directors in charge of the management based on key performance indicators (KPI) in a balanced scorecard format. These indicators cover financial aspects, commercial aspects, internal processes, the organization and trainings.

Revenue recognition process

The Finance Department is responsible for recognizing revenues and ensuring:

- That actual revenues are consistent with contractual data as regards the Licensing Division;
- The accuracy of billing information;
- The completeness of the services billed, primarily for the Service Division.

Customer risk management process

Customer risk is managed at two different levels:

- Upstream, by assessing customer risk before processing orders;
- Downstream, through a periodic follow-up procedure adapted to each customer in order to reduce outstanding debt.

Regular monitoring of average payment times makes it possible to assess how effectively accounts receivable are managed across the various subsidiaries.

Cash management process

The Chief Financial Officer, with the support of the treasurer, is responsible for managing cash flows and monitoring:

- Cash levels necessary to cover the Company's ongoing business needs while tracking inflows and outflows;
- Profitability and the risk of various cash surplus investments;
- Foreign exchange risks, in order to take any necessary corrective actions
- The use of loans necessary for the expansion of the Company.

The cash position of each entity is centralized and a consolidated quarterly outlook is drawn up each month.

__Payroll management process__

The payroll process is under the responsibility of the Director of Human Resources and makes it possible to:

- Process the various items involved in calculating salaries;
- Enter payroll information in the accounting system;
- Provision for paid vacation in order to distribute the expense throughout the year;
- Comply with labor-related reporting obligations.

3.2.2.3. Risk management

Process management and ISO 9001:2008 certification

The Company, which is ISO 9001:2008 certified, has oriented its quality-assurance procedures toward developing a worldwide certification for the entire Group, aiming to include all its subsidiaries whether they are already certified or not. This process, combined with the new requirements of the ISO 9001:2015 standard, is an additional asset for strengthening management via established processes and facilitating the implementation of risk management, ensuring long-term and effective prevention.

Insurance and risk coverage – general information

The Company has taken out an insurance policy that covers the cost of information recovery, additional operating costs and operating losses (loss of profit resulting from the decrease in revenues caused by the interruption or decline in the Company's business activities) in the event of direct damage to its equipment.

For its foreign subsidiaries, damages that would fall under operational civil liability coverage, including so-called "employer liability" and/or "workers' compensation" policies and automobile-related risks are excluded from this policy.

The French policy (headquarters and subsidiaries) is not a replacement for those taken out outside of France in accordance with local laws from local insurance companies licensed to operate in the country in question.

In addition, ESI Group has taken out an insurance policy covering the liability of senior executives and corporate officers of the Company and its subsidiaries.

ESI Group has also taken out a Group-wide international insurance policy to cover all employees who travel outside of France.

3.2.3. Limits on the powers of the Chief Executive Officer and Chief Operating Officers

The law provides that the Board of Directors elect from among its members a Chairman who is a natural person, who organizes and directs its work and ensures that the Company's various bodies function properly. The Board entrusts general management either to the Chairman of the Board of Directors or to another natural person, whether or not a director of the Board, who carries the title Chief Executive Officer. The Board of Directors chose to appoint the Chairman of the Board of Directors as Chief Executive Officer no limits have been put on the powers of the Chairman and Chief Executive Officer. This arrangement was chosen as the most appropriate, given the Company's size and the presence of two Chief Operating Officers who can assist the Chairman and Chief Executive Officer.

However, the powers of the Chief Operating Officers to act as legal and commercial representatives of the Company have been delegated by the Chairman of the Board of Directors. The following powers have thus been delegated to the Chief Operating Officers, Mr Vincent Chaillou and Mr Christopher St.John:

1. To represent the Company, in general, in all ongoing business affairs of ESI Group with respect to third parties and in compliance with the Group procedures;
2. To enter into commercial contracts or agreements on behalf of the Company within its commercial territory and authority;
3. To hire or terminate any employee, executive, consultant, sales representative, distributor or agent and to determine the scope of their powers and their title (with the exception of managers and directors) and to establish or increase any compensation, com-mission or pension for all such individuals or legal entities. The annual compensation cannot exceed EUR 100,000.

At any rate, the Chief Operating Officers need the Company's prior written consent to carry out the following transactions on behalf of the Company:

- To hire managers and directors and determine or modify their annual compensation;
- To purchase or acquire, sell or dispose of, lease or rent, or mortgage any real estate property;
- To pledge any movable property or receivable;
- To enter into credit arrangements;
- To take out loans on behalf of the Company (with the exception of the use of bank overdrafts granted to the Company);
- To create or acquire stakes in other companies, to perform any other type of similar undertaking, to accept management positions in other companies, to establish or dissolve subsidiaries and to divest ownership interest;
- To propose a merger;

– To grant loans;
– To bind the Company as a guarantor or in any other debt-related situation with respect to third parties;
– To settle any disputes and to take legal action, with the exception of debt recovery actions that form part of the Company's ongoing operations and with the exception of urgent actions such as provisional or conservatory measures that cannot be postponed in the interests of the Company;
– To set up retirement plans for the employees of the Company;
– To sell or dispose of, purchase or acquire, transfer or mortgage any assets belonging to the Company worth more than EUR 50,000;
– Enter into commercial contracts or transactions exceeding EUR 250,000, with the exception of intra-group contracts issued by the Company, which Mr Vincent Chaillou and Mr Christopher St.John may sign without any limitation as to amount;
– In general, to take any action related to the Company involving an amount greater than EUR 50,000;
– In general, to enter into any agreement or transaction involving other companies within the Company, customers or partners falling outside the Company's commercial territory or authority.

3.2.4. Principles and rules for determining the compensation paid to corporate officers

Fees are paid to the Board of Directors, at the recommendation of the Compensation, Nomination and Governance Committee, based on the frequency of meetings, members' attendance and participation rate and whether or not they chair one of the specialized committees and in light of the special assignments that they may be given.

In accordance with recommendation R. 2 of the Corporate Governance Code, corporate offers' compensation complies with legal and regulatory requirements, as well as the seven principles set forth in said Code. These seven principles are as follows: exhaustive, balanced, benchmarked, consistent, clear, measured and transparent.

The Chairman and Chief Executive Officer and the Chief Operating Officers received both a fixed salary and a variable bonus. The Chief Operating Officers are also eligible for free share awards.

The compensation policy, including stock options and free share awards, is regularly discussed by the Compensation, Nomination and Governance Committee and approved by the Board of Directors (R. 5 of the Corporate Governance Code).

3.2.4.1. Compensation paid to members of the Board of Directors

In accordance with the provisions of Article L. 225-102-1 of the French Commercial Code, the total compensation received by Mr Alain de Rouvray, Chairman and Chief Executive Officer of the Company, and by the other corporate officers during the year 2015 is listed below.

Directors' fees received by executive and non-executive corporate officers	Fiscal year 2015	Fiscal year 2014
Executive corporate officers		
Mr Alain de Rouvray	10,000	10,000
Mr Vincent Chaillou	6,000	6,000
Non-executive corporate officers		
Mr Jacques Dubois	4,000	6,643
Ms Cristel de Rouvray	47,042	45,036
Mr Charles-Helen des Isnards	31,033	31,500
Mr Éric d'Hotelans	16,500	16,500
Ms Véronique Jacq	14,078	7,363
Ms Rajani Ramanathan	18,033	8,893
Mr Michel Barbier de la Serre	N/A	8,393
Mr Francis Bernard	N/A	12,902
TOTAL	**146,686**	**153,230**

Through its eighth resolution, the Combined General Meeting of July 22, 2015 set the total compensation paid to members of the Board of Directors in the form of directors' fees for the 2015 fiscal year at EUR 160,000, stipulating that this amount would be distributed by the Board of directors among its members.

3.2.4.2. Compensation of the Chairman and Chief Executive Officer and the Chief Operating Officers

The terms of compensation for the Chairman and Chief Executive Officer and the Chief Operating Officers are proposed by the Compensation, Nomination and Governance Committee, which is composed primarily of independent members. As part of its work, this Committee makes recommendations to the Board of Directors regarding the type and amount of such compensation.

The Board of Directors, half of whose members are independent, then decides on these recommendations and establishes the compensation to be paid to executives.

The variable compensation of senior managers thus depends on quantitative criteria drawn up by the Board of Directors. The degree to which each of these criteria has been met has been precisely noted but is not made public for reasons of confidentiality.

This process ensures the fairness and transparency of the compensation paid to the Chairman and Chief Executive Officer and the Chief Operating Officers in accordance with recommendations R. 2 to R. 5 of the Corporate Governance Code.

	Fiscal year 2015	Fiscal year 2014
Alain de Rouvray		
Compensation owed for the year	593,769	508,429
Value of options granted during the year	-	-
Value of performance shares granted during the year	-	-
Vincent Chaillou		
Compensation owed for the year	251,837	230,939
Value of options granted during the year	-	-
Value of performance shares granted during the year	-	-
Christopher St.John		
Compensation owed for the year	251,853	243,947
Value of options granted during the year	-	-
Value of performance shares granted during the year	-	-

Mr de Rouvray	2015		2014	
	Amounts owed	Amounts paid	Amounts owed	Amounts paid
Salary	362,554	362,554	305,344	309,160
Bonuses	63,503	60,261	60,261	0
Director's fees	10,000	10,000	10,000	10,000
Fringe benefits	157,711	157,711	132,824	164,885
TOTAL	**593,769**	**590,527**	**508,429**	**484,046**

Mr Chaillou	2015		2014	
	Amounts owed	Amounts paid	Amounts owed	Amounts paid
Salary	198,550	198,550	190,000	190,000
Bonuses	39,827	20,194	27,480	15,577
Director's fees	6,000	6,000	6,000	6,000
Fringe benefits	7,459	4,681	7,459	7,459
TOTAL	**251,837**	**229,425**	**230,939**	**219,036**

Mr St.John	2015		2014	
	Amounts owed	Amounts paid	Amounts owed	Amounts paid

Salary	177,650	177,650	170,000	170,000
Bonuses	32,203	39,706	31,947	26,255
Fringe benefits	42,000	42,000	42,000	42,000
TOTAL	**251,853**	**259,356**	**243,947**	**238,255**

Executive corporate officers	Employment contract		Supplementary retirement plan		Payments or benefits due as a result of termination or change in position		Compensation payable under a non-competition clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Mr Alain de Rouvray Chairman and Chief Executive Officer		X		X		X		X
Mr Vincent Chaillou Chief Operating Officer	Suspended			X		X	25% of annual compensation	
Mr Christopher St.John Chief Operating Officer	X			X		X		X

3.2.4.3. Options and free shares awarded

STOCK SUBSCRIPTION OR STOCK PURCHASE OPTIONS GRANTED DURING THE 2015 FISCAL YEAR TO EXECUTIVE CORPORATE OFFICERS

No stock subscription or stock purchase options have been granted during the 2015 fiscal year to executive corporate officers.

PERFORMANCE SHARES ALLOCATION TO CORPORATE OFFICERS (LIST OF NAMES) DURING THE 2015 FISCAL YEAR

No performance shares have been granted during the 2015 fiscal year to corporate officers.

FREE SHARES ALLOCATION TO CORPORATE OFFICERS (LIST OF NAMES) DURING THE 2015 FISCAL YEAR

No free shares have been granted during the 2015 fiscal year to corporate officers.

3.2.4.4. Options and free shares exercised

STOCK OPTIONS EXERCISED DURING THE 2015 FISCAL YEAR BY EACH EXECUTIVE CORPORATE OFFICER

Stock options exercised during the fiscal year by each executive corporate officer			
Name of the executive corporate officer	Plan number and date	Number of options exercised during the fiscal year	Exercise price *(in Euros)*
Christopher St.John	No. 7 (June 30, 2005)	3,500	8.86
TOTAL		**3,500**	**8.86**

3.2.4.5. History of stock option grants

Meeting date	Plan 7: 6/30/2005	Plan 9: 6/29/2006	Plan 10: 6/26/2012	Plan 15 : 7/23/2013	Plan 17 : 7/24/2014
Date(s) of the meeting(s) of the Board of Directors	July 10, 2008	July 10, 2008	2012 to 2015	March 26, 2015	July 22, 2015
Number of shares eligible to be subscribed or purchased	100,000	200,000	180,000	20,000	7,350
Of which :					
– *Vincent Chaillou*	32,000	0	3,500	0	0
– *Christopher St.John*	6,000	14,000	2,975	0	0

Starting date of exercise period	July 10, 2013	July 10, 2013	2017 to 2019	February 1st, 2019	July 22, 2019
Expiration of exercise period	July 8, 2016	July 8, 2016	2020 to 2025	February 1st, 2025	July 21, 2023
Subscription or purchase price (in euros)	8.86	8.86	25.94	21.66	27.17
Total number of subscribed shares	13,100	53,980	0	0	0
Total number of shares eligible to be subscribed or purchased expired or cancelled	86,900	114,100	51,375	0	0
Shares eligible to be subscribed or purchased remaining at the balance sheet date	0	31,920	128,625	20,000	7,350

3.2.4.6. History of free shares grants

Meeting date	Plan 14: 6/26/2012
Date(s) of the meeting(s) of the Board of Directors	December 19, 2012
Number of granted shares	21,755
– *Vincent Chaillou*	3,600
– *Christopher St.John*	3,100
Starting date of exercise period	December 20, 2016
Expiration of exercise period	December 20, 2020
Total number of subscribed shares	0
Total number of expired or cancelled shares	2,570
Shares remaining at the balance sheet date	19,185

3.2.4.7. Stock options granted to the top ten employee grantees (not including corporate officers)

Stock options granted to/exercised by the top ten employee grantees (not including corporate officers)	Total number of options granted/shares subscribed or purchased	Weighted average price	Plan number
Options granted to the top ten employee grantees during the fiscal year, by the issuer and any other companies within the issuer's group entitled to grant options	45,500	22.9	10, 15 &17
Options issued by the issuer and any aforementioned company exercised during the fiscal year by the top ten employees who thus purchased or subscribed to the largest number of options	3,150	8.86	9

At this point the Chairman and Chief Executive Officer and the Chief Operating Officers do not receive any other type of compensation; specifically, they are not eligible for severance pay under any circumstances nor has any type of supplementary retirement plan been established for them, in accordance with the recommendations of the Corporate Governance Code (R. 3 and R. 4).

3.2.5. Other information required by L. 225-37 of the French Commercial Code

3.2.5.1. Special provisions related to the participation of shareholders in the Annual General Meeting

The procedures relative to Shareholder participation in the Company's Annual General Meeting are set forth under Article 18 of the articles of association. Specifically, all Shareholders have the right, upon presentation of proof of their identify, to take part in meetings by attending them in person, by videoconference or by other means of electronic telecommunication or transmission, or by returning the mail-in ballot or designating a proxy, subject to the conditions set forth in the articles of association.

3.2.5.2. Information required by Article L. 225-100-3 of the French Commercial Code

In accordance with Article L. 225-100-3 of the French Commercial Code, the following items are included under Section 1.3.4 (regarding the capital structure and direct or indirect shareholdings in the Company's capital), Section 1.3.2.3 (regarding double voting rights granted by the articles of association), and Section 3.4.3 (regarding the existing shareholders' agreement) of ESI Group's Registration Document.

The procedure for appointing and replacing members of the Board of Directors, as well as the powers of this Board, is also described in the Report.

3.2.6. Declaration by the members of the Board of Directors with respect to paragraph 14.1 of Annex I of EC Regulation No. 809/2004 ("Prospectus Regulation")

In the past five years, to the Company's best knowledge, no Board member nor executive has been convicted of any fraudulent offence, been associated with a company's bankruptcy, receivership or liquidation or, received an official public incrimination or sanctions by statutory or regulatory authorities.

Furthermore, to the Company's best knowledge, none of its Board members or corporate executives has been barred, by court order, from serving as a member of an administrative, management or supervisory body of any company or from participating in the management and business dealings of any company during the last five years.

The Report was approved by the Board of Directors on April 8, 2016.

Appendix I: List of other positions currently held by the Company's Board members and exercised outside the entity

Independent members of the Board of Directors*

Mr Charles-Helen des Isnards

– Member of the Supervisory Board of Nature & Découvertes;
– Board member of Les Arts Florissants association;
– Board member of the Day-Solvay Foundation.

Mr Éric d'Hotelans

– Chairman and Chief Executive Officer of Home Shopping Services SA since 2009;
– Chairman of T-Commerce SAS;
– Board member of M6 Films;
– Board member of M6 Diffusion SA;
– Board member of Société Nouvelle de Distribution SA;
– Board member of Métropole Production SA;
– Board member of the M6 Group's company Foundation.

Ms Véronique Jacq

Not applicable.

Ms Rajani Ramanathan

Not applicable.

** All of the positions held by independent Board members outside the entity are held outside the Group's scope of consolidation.*

3.3. Statutory Auditors' report, prepared in accordance with article L.225-235 of the French Commercial Code (Code de commerce) on the report prepared by the Chairman of the Board of Directors of the Company

Year ended January 31, 2016

To the Shareholders,

In our capacity as Statutory Auditors of the Company, and in accordance with article L.225-235 of the French Commercial Code (Code de commerce), we hereby report to you on the report prepared by the Chairman of your company in accordance with article L.225-37 of the French Commercial Code for the year ended January 31, 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L.225-37 of the French Commercial Code (Code de commerce) in particular relating to corporate governance.

It is our responsibility to:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- to attest that the report sets out the other information required by article L.225-37 of the French Commercial Code (Code de commerce), it being specified that it is not our responsibility to assess the fairness of this information.

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

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L.225-37 of the French Commercial Code (Code de commerce).

Other information

We attest that the Chairman's report sets out the other information required by article L.225-37 of the French Commercial Code *(Code de commerce)*.

Neuilly-sur-Seine and Paris-La Défense, May 19, 2016

The statutory auditors

French original signed by

PricewaterhouseCoopers Audit	Ernst & Young Audit
Thierry Charron	Frédéric Martineau

3.4. Potential conflicts of interest within the corporate bodies

With the exception of the items addressed below, executives do not have any other potential conflicts of interest.

3.4.1. Capital held by the members of the Board of Directors

As at July 22, 2015 the date of the Company's Annual General Meeting, the members of the Board of Directors held a total of 1,852,364 shares, representing 31.1% of the Group's capital, and 3,583,087 voting rights, representing 46.6% of the voting rights within the Group.

3.4.2. Transactions between the Company and its management bodies

Not applicable.

3.4.3. Shareholders' agreements

An agreement was signed on October 25, 2000 between Mr Alain de Rouvray (Chairman and founder of the Company), the members of his family Group (Ms Amy de Rouvray, Ms Cristel Anne de Rouvray, Mr John Alexandre de Rouvray and Ms Amy Louise de Rouvray), Mr Jacques Dubois (member of the Board of Directors and co-founder of the Company) and Mr Philippe Billaud in their capacity as ESI Group shareholders.

The parties indicated that the purpose of the agreement was to formalize a concert party agreement that took effect between them on the date that the Company's shares were first listed on the "Nouveau Marché" stock market.

This shareholders' agreement was published in *La Tribune* on Friday, October 27, 2000 following CMF decision No. 200C1608 dated October 27, 2000.

This agreement includes mutual first-refusal rights.

These rights of first refusal do not apply to transfers of shares to the heirs of any shareholder who is a private individual and a party to the agreement in the event of death or to transfers between members of the de Rouvray family who are party to the agreement.

This agreement also contains:

- An obligation, on the part of the parties to the agreement, to either purchase or sell their shareholding: in the event that Mr Alain de Rouvray decides to sell all ESI Group shares that he currently holds or holds at some point in the future, each party is irrevocably bound to either:
  - Exercise its first-refusal rights and purchase the shares under the conditions set forth under the agreement;
  - Waive its right of first refusal and consequently sell its entire shareholding at the sale price;
- A commitment to act in concert prior to the purchase of any additional shares that would force the parties to the agreement to jointly file a draft takeover bid.

In keeping with this agreement, the parties declare that they act in concert.

In accordance with the so-called "Dutreil" law in France, an agreement was also signed on December 22, 2003 between Mr Alain de Rouvray (Chairman and founder of the Company), Ms Cristel Anne de Rouvray, Mr John Alexandre de Rouvray and Ms Amy Louise de Rouvray in their capacity as shareholders of the Company. As at January 31, 2016, this agreement represented 30.6% of the Company's capital and 46.2% of its voting rights and collectively binds its signatories to retain half of their shares for at least six years.

This agreement was renewed on December 31, 2011 for a further term of six years.

4 MANAGEMENT REPORT OF THE BOARD OF DIRECTORS TO THE COMBINED GENERAL MEETING OF JULY 21, 2016

Fiscal year 2015 (ended January 31, 2016)

4.1. Business activities during the 2015 fiscal year

4.1.1. Business activities during the 2015 fiscal year

Financial data

The marked improvement in our earnings over the year testifies to the success of our policy of improved profitability and controlled costs.

The strong growth of our 2015 revenues reflects the strength of the Licensing activity and the strategic refocusing of the Services activity towards high value-added Engineering Services.

There was a positive currency effect of EUR 6.1 million, arising mainly from the positive trend of the US dollar and, to a lesser extent, the Japanese yen and South Korean won.

Moreover the 2015 fiscal year was characterized by a significant improvement in profitability, as we can see by the increases of the EBITDA and Current Operating Profit, despite the R&D investments and external growth.

The product mix shifted towards Licensing activity, which now accounts for 78% of total sales compared with 76% in 2014.

Total gross margin improved both because of the change in the product mix towards Licensing activity, and because of slight improved margins in Licenses and Services. Furthermore, while continuing its R&D investments and its external growth strategy, ESI maintained its operational costs control, as reflected in the fact that Sales and Marketing as well as General and Administrative costs remained contained.

Year-end available cash is at slightly lower levels and have been affected by seasonal fluctuations including a payment that was delayed to the next year, which is particularly evident with strong sales growth occurring mostly in the fourth quarter.

Structural changes

CIVITEC (80% of share capital acquired) was integrated into the Group as of March 27, 2015. As of April 10, 2015, the assets of Ciespace were consolidated. The assets of PicViz Labs were consolidated as of March 30, 2015, and Presto software was integrated as of May 6, 2015. ITI GmbH (96% of share capital acquired) was consolidated as of January 6, 2016. These acquisitions represent EUR 0.7 million of the Group's revenues for the year, including EUR 0.5 million in the fourth quarter and a decrease of EUR 0.5 million from EBITDA for the year.

Roll-out of solutions

Booking rose sharply among major customers in the automotive sector, and in particular from high-profile strategic partners such as Volkswagen Group, Renault-Nissan and Honda. Thanks to its strongly disruptive Virtual Performance solution, ESI provides these customers with a unique multi-domain and multi-physics environment that enables them to virtually manufacture and assemble essential components using a single core model that captures the level of physical information needed to meet industrial and regulatory requirements.

Sector diversification

ESI has notably strengthened its positions in the aerospace, energy and heavy industry sectors. Companies in those sectors, subject to heavy competitive pressure and environmental constraints, have benefited greatly from ESI's solutions. In particular, ESI's sharply rising activities with the EDF group attest to the unique value that ESI can add in nuclear safety and to the development of new energy options, an area in which a strategic partnership was signed with EDF Energies Nouvelles last year.

Success of the virtual reality solution

In 2015, the dynamic growth of the virtual reality solutions continued with new contracts signed with leading manufacturers in the aerospace and transport sectors, such as US helicopter manufacturer Sikorsky Aircraft Corporation and Bombardier, a world-leading player in aircraft and train production. ESI's virtual reality solution has also being widely used by Boeing, which has installed it at its new sites. The solution enables Boeing to improve its decision-making through globally distributed teams working collaboratively on an immersive, real-time virtual model.

Realization of the strategic vision

The expansion of the Group's strategic positioning, notably thanks to the newly acquired technological building blocks, has further enhanced our growth potential. In particular, the acquisition of ITI GmbH in January 2016 has given the Group a recognized presence in the simulation of 0D-1D systems. The latter's expertise, which is acknowledged by major global companies, allows direct access to an industrial product functional features and to represent its interactions with its 3D components. Most importantly, the use of the information and communication technologies of the future (ICT) such as Big Data, Machine Learning and the Internet of Things (IoT) now allows to present and experience ESI's solutions in an interactive space and to enable real-time decision-making in a virtual immersive environment. The innovative virtual prototype can now become agile and smart to support industrial manufacturers in their transformation towards the era of factories of the future and of autonomous digital products.

4.1.2. Figures from the consolidated financial statements

4.1.2.1. Review of financial performance

The consolidated financial information presented below is compliant with IFRS standards.

4.1.2.1.1. Consolidated key figures

(In millions of euros)	2015	2014	Variation at actual currency rate	FOREX impact	Variation at constant currency rate
Total sales	**124.7**	**111.0**	**+ 12.3%**	**6.1**	**+ 6.8%**
Licenses	97.0	84.5	+ 14.8%	4.8	+ 9.1%
Services	27.7	26.5	+ 4.5%	1.3	- 0.5%
Gross margin	**90.4**	**79.1**	**+ 14.3%**	**4.7**	**+ 8.3%**
% of sales	*72.5%*	*71.3%*			
EBITDA (1)	**14.3**	**10.8**	**+ 32.2%**	**0.6**	**+ 26.2%**
% of sales	*11.4%*	*9.7%*			
current Operating Profit	**11.8**	**9.0**	**+ 31.8%**	**0.6**	**+ 25.6%**
% of sales	*9.5%*	*8.1%*			
EBIT	**9.4**	**8.4**	**+ 12.0%**	**0.5**	**+ 5.4%**
% of sales	*7.5%*	*7.5%*			
Attributable net profit	**5.3**	**5.5**	**- 3.0%**	**0.4**	**- 10.7%**
% of sales	*4.3%*	*5.0%*			

(1) EBITDA excluding non-recurring result, and now including the impacts of capitalization of research and development expenses and net allowance on account receivables' depreciation. 2014 data have been adjusted accordingly. See the adjusted table below.

4.1.2.1.2. General information

Revenues

Sales totaled €124.7 million, up 12.3% year-on-year at actual rates, and up 6.8% at constant exchange rates. Acquisition-related revenues remained limited at EUR 0.7 million, split equally between Licensing and Services. There was a positive currency effect of EUR 6.1 million, arising mainly from positive movements of the US dollar and to a lesser extent the Japanese yen and South Korean won.

Licenses activity recorded annual sales of EUR 97.0 million, up 14.8% at actual rates compared with the previous year. That solid growth reflects ESI Group's success in developing its installed base, which generates the very high repeat business rate of 90% at constant exchange rates. New Business amounted to EUR 17.4 million, a small increase of 2.4% compared with 2014 despite strong momentum in the second half, particularly in China.

Services activity recorded a moderate growth of +4.5%, driven by a solid +14.8% increase in engineering studies, the core of ESI Group's Consulting activity (Services excluding Other Services, such as supply of equipment).

In 2015, the geographical split in sales reflected strong growth in Licenses activity in Asia and the Americas. Asia accounted for 35.5% of total sales versus 34.7% in 2014, and the Americas for 18.7% compared with 17.2% in 2014, whereas Europe made up 45.8% of sales, compared with 48.2%.

The BRIC countries remained stable compare to the 2014 figure (12.6% of sales in 2015 vs 12.7% last year). Strong growth in Licenses activity in China was partly offset by ongoing economic difficult context in Russia.

Gross margin and operating expenses

The gross margin was 72.5% of sales, compared with 71.3% in 2014. This improvement was a result of the shift in the product mix towards Licenses and also an improvement in margin in both Licensing and Consulting activities.

In alignment with our strategy based on technological innovation, R&D investments increased by +21.6% at actual rates. R&D costs thus totaled EUR 29.1 million (excluding the French Research Tax Credit 'CIR') and now represent 30.0% of Licensing sales. This increased investment concerns existing technologies and also technologies associated with recent external growth operations. Once CIR and R&D capitalization costs are taken into account, the total R&D costs recorded in the P&L statement amounted to EUR 22.8 million at actual rates, an increase of +14.0%.

In 2015, Sales and Marketing (S&M) and General and Administrative (G&A) costs represented 31.0% and 13.8% of global sales respectively. Altogether, these costs increased by +10.2% in 2015, compared with a +12.3% increase in sales. This result, which fully includes S&M and G&A expenses of the Group's acquisitions, highlights ESI's good management of its operating costs over the year.

Income

The EBITDA increased sharply of +32.2% to EUR 14.3 million, giving an EBITDA margin of 11.4% in 2015 compared with 9.7% in 2014. This increase totaled + 26.2% at constant rates (for an equivalent of EUR 13.6 million, to 11.5% of gross margin). The annexed reconciliation table documents the effect of the standardization in the definition of EBITDA and confirms the Group's good performance in terms of increase in profitability both prior to and after the integration of its acquisitions.

	FY15	FY14	Variation at actual terms	
			%	Amount
Turnover	**124.7**	**111.0**	**12.3%**	**13.7**
EBITDA – former definition	**11.7**	**10.1**	**15.3%**	**1.5**
– *Of which organic*	13.6	10.1	34.5%	3.5
– *Of which 2015 M&A*	- 1.9	0.0		- 1.9
R&D capitalization –net effect	3.5	1.2		2.3
Net provisions for accounts receivable depreciation	- 0.8	- 0.4		- 0.4
EBITDA – new definition	**14.3**	**10.8**	**32.2%**	**3.5**
– *Of which organic*	14.8	10.8	37.2%	4.0
– *Of which 2015 M&A*	- 0.5	0.0		- 0.5
Amortization on other tangible and intangible assets	- 2.2	- 2.1		- 0.1
Other net provisions	- 0.2	0.3		- 0.5
Current Operating Profit	**11.8**	**90**	**31.8%**	**2.9**

Current Operating Profit strongly grew by +31.8% to EUR 11.8 million, showing a current operating margin of 9.5%, or 1.4 percentage points on the previous year. At constant rates, it totaled EUR 11.2 million, an increase of 25.6%.

EBIT increased by +12.0% to EUR 9.4 million, giving a margin of 7.5%, stable on the previous year. At constant rates, it amounted to EUR 8.8 million, an increase of 5.4%, or + EUR 0.5 million. This increase was smaller than the increase in EBITDA and current operating profit mainly because of exceptional costs, classified in non-recurring costs, associated with the last six technological acquisitions carried out in 2015.

Financial Result was -EUR 0.9 million versus +EUR 0.7 million in 2014. In 2015, financial costs, notably associated with interest charges, were not totally offset by revenue from currency gains and losses, which exceptionally totaled EUR 1.6 million in 2014 following the strengthening of the US dollar at the end of the year.

Affected by the effects of non-recurring acquisitions costs and the Financial Result, attributable Net Profit totaled EUR 5.3 million in 2015, to yield a net margin of 4.3%, and takes into account a strong tax burden of EUR 3.2 million.

4.1.2.2. Financial position – consolidated balance sheet

The main changes in the balance sheet over the fiscal year are described below:

- Non-current assets, less non-current liabilities (excluding financial debt), increased by EUR 25.3 million. This growth is explained by the acquisitions of technological bricks and companies for an amount of EUR 21.3 million and by the R&D capitalization which had impacted the fixed assets EUR 3.5 million;
- Total financial debt (long-term and short-term) increased by EUR 24.0 million, mainly due to acquisitions of subsidiaries and technological bricks during 2015 fiscal year. A new syndicated loan was signed during the fiscal year, enabling the refinancing of the previous loan as well as providing funds for external growth, in particular for the acquisition of ITI GmbH at the end of the fiscal year. The use of the revolving credit line(which replaced commercial paper used in 2014) remains at a more-or-less stable level, having increased 0.5 million euros.

Equity stood at EUR 91.7 million. Financial debt came to EUR 46.6 million, representing 50.8% of equity, versus 26.0% one year earlier.

Financial debt, net of available cash flows, totaled EUR 36.2 million and represents 39.6% of equity (the gearing ratio), versus 12.3% at January 31, 2015.

Cash and cash equivalents at the closing decreased of EUR 1.6 million, from EUR 11.9 million to EUR 10.3 million at January 31, 2016.

At January 31, 2015 ESI Group also held 7.2% of its equity in treasury stock.

4.1.2.3. Risk management

Country risks and foreign exchange risk

Because of its international dimension, notably in countries with a currency other than the euro, the Group is exposed to country risk and foreign exchange risk.

- Country risk: During the fiscal year ended January 31, 2016, 45.8% of the Group's revenues were earned inside of Europe, 35.5% coming from Asia (mainly Japan, South Korea, China and India) and 18.7% coming from the Americas (mainly the United States). The Group is therefore exposed to economic and political uncertainties in these zones.
- Foreign exchange risk: The Group is also exposed to risks stemming from changes in foreign exchange rates. For the fiscal year ended January 31, 2016, 59.1% of revenues were generated outside the Euro zone and 47.6% of the costs are spent in a currency other than the euro. The Group's policy aims, whenever possible, to hedge net operating cash flows projected in the budget based on the exchange rate applied for budgetary purposes.

  A detailed description of these risks and hedging is submitted in notes 7.1.4 and 7.3 to the consolidated financial statements.

Interest rate risk

Most of the Group's financial debts are with variable interest rates. In order to limit the negative impacts of rate fluctuation, the Group applies a non-speculative management policy, using derivatives. A detailed description of this risk and of hedging can be found in notes 7.1.2, 7.1.4, and 7.3 to the consolidated financial statements.

4.1.2.4. Cash flows and financing

The 1.6 million-euro decrease in cash over the 2015 fiscal year can be explained by the events listed below.

Net cash flows came to EUR 7.5 million versus EUR 7.9 million for the previous fiscal year. This change is primarily due to:

- An increase in EBITDA of 3.5 million euros;
- Variation of non-cash items of 2.0 million euros, mostly related to an increase in capitalization of R&D costs;
- Non-recurring costs related to 2015 acquisitions of 1.3 million euros;
- An increase in assets for coverage of retirement benefits in South Korea following regulatory changes, with an impact of 0.6 million euros.

Variation in several components of working capital requirement (WCR) has had a negative impact of 7.8 million euros due mostly to growth in revenues over the fourth quarter, which receivables will be paid only in the following year. The amount of liquid assets from operations is thus at - 0.3 million euros.

Current capital expenditures paid by the Company are worth 2.9 million euros, versus 1.4 million euros for the previous fiscal year. This increase can mostly be explained by investments made in high-performance computing (HPC) and a decrease in debts owed to suppliers of fixed assets.

In addition to these current capital expenses, there were investments in technological bricks and acquisitions of subsidiaries for 20.4 million euros (excluding liquid assets of the companies acquired) and payment of earnouts for 0.2 million euros.

The main financing flows in 2015 were related to acquisitions for 21.5 million euros. Additionally, at the beginning of fiscal year 2015, ESI Group paid off 7.5 million euros in commercial paper and, at the end of fiscal year 2015, used 8.0 million euros of its short-term revolving credit to cover the strong effects of variation in WCRs related to significant growth in revenues at the end of the year. Overall, financial debts increased by 24.0 million euros.

4.1.3. Research and development

4.1.3.1. Research and development costs

Research and development costs are recorded as soon as they are incurred. This amounted EUR 29.1 million in 2015, an increase of 21.6% compared to previous year. This investment rise concerns existing technologies, but also those on last external growth operations.

The capitalization of R&D costs had a EUR + 3.5 million impact on the income statement in 2015.

A breakdown of the expenses is provided in the note 6.1.2 to the consolidated financial statements.

Research and development (R&D) policy

The Edition Department in charge of R&D delivers products in line with the Group's strategy and market needs. It also seeks to maintain the competitive edge of ESI Group's solutions. It focuses on:

- Generic analysis and simulation tools needed to approach the market (Virtual Tool);
- Business solutions that provide realistic physical modeling properties via simulation (Virtual Test);
- Component lines to manage processes and best practices by industrial segment or multi-model design (Virtual Component);
- Systems involving component chains or mechatronic sub-systems and systems (Virtual Systems);
- Complete prototyping lines covering all aspects of the virtual engineering process in line with the customer's product lifecycle management process, providing optimization and 3D visualization capabilities and assisting in the local, departmental or global decision-making process;
- Comprehensive, "living" virtual prototyping platforms that support all product modules and customer processes and that improve the customer's products performance cycle.

The R&D policy supports:

- The business model in an effort to adapt to changes in how products are used and to push boundaries for new computer platforms (GPU, SaaS, Cloud) or platforms in development with a view to upgrading the installed base;
- Product improvements with a view to expanding the installed base or winning over new customers with existing products;
- New products with a view to encouraging our customers to deploy new products and new processes or to improve their performance by working jointly with ESI Group.

The Products Department allots different levels of investment depending on the maturity of the product:

- Investments are made in mature products in order to ensure maintenance, product improvements, widespread adoption of major innovations and the delivery of new competitive products;
- Investments are made in emerging products with greater demand and with the potential to drive growth in order to accelerate adoption of these products in industrial applications;
- Investments are made in innovative products by increasing the research contracts with leading customers in order to ensure the viability of these new tools and to increase the chance of commercial success, where applicable;
- Technology intelligence is performed to support all products.

The Edition Department follows an approach that is both specific and generic in nature to meet different goals:

- To ensure generic products and components to meet multiple needs in multiple industrial segments and to support developments of services, customers or third parties;
- To ensure the competitiveness and productivity of our products by targeting specific, high-potential business applications and solutions;
- To maximize synergies between products to make it easier to release competitive, affordable versions and minimize maintenance efforts;
- To integrate this generic know-how into a comprehensive virtual prototyping platform that makes it easy to take needs into account for specific applications or custom services.

The Edition Department continues to partner actively, to ensure:

- The identification of technologies, acquisition targets and market opportunities in collaboration with its Scientific Committee;
- An evaluation of financing opportunities to guide the levels of investment;

- A discovery process in partnership with the various approaches to research and development (academic chairs, European projects, co-creation projects);
- Rapid industrialization for optimal market introduction.

This environment reduces risks and ensures a high rate of co-financing and research tax credits.

The Edition Department follows a methodology that is tailored to the needs of highly innovative customers and always uses the best tools on the market to avoid redundancies and the obsolescence of in-house solutions. In addition, near-shoring or multi-shoring, which are used to strike a balance between human interests and financial interests, is being expanded to reduce dependence on exchange rate effects and to reduce related expenses.

4.1.3.2. Intellectual property (excluding trademarks)

Most of the Company's intellectual property consists of software and databases that are protected by copyright in the world, and by specific laws concerning database producers within the European Union, and by competition law outside.

The ownership of all development work performed by ESI Group's subsidiaries and ordered by these latter is transferred to the Company. The Group's publishing division thus holds all intellectual property rights.

Most of the software products and databases published by the Company belong to ESI Group.

The Company is the beneficiary of publishing contracts for the few products that belong to third parties. These products represent either software integrated within its offer (for which replacement solutions could be obtained in the event that the third-party software is discontinued) or complementary solutions which are not, however, critical to the operation of the Company's software. The Company also owns several patents, directly or via its subsidiaries.

4.1.4. ESI Group SA annual financial statements and allocation

4.1.4.1. ESI Group SA annual financial statements

ESI Group SA is the parent company of the Group; therefore, it owns or controls all of its subsidiaries.

It oversees all of its subsidiaries and centralizes most of software publishing activities.

ESI Group SA's revenues consist mainly of:

1. Royalties paid by subsidiaries, distributors and agents and received for software licensing;
2. Amounts billed to direct customers for software licensing and/or services, in territories not covered by its subsidiaries;
3. Group services fees billed to subsidiaries as compensation for ESI Group oversight responsibilities;
4. Self-created assets stemming from research and development work;
5. The licensing of exclusive software distribution rights to the subsidiaries.

The operating result for 2015 is a profit of EUR 1,649 thousand versus a loss of EUR 846 thousand for the previous year.

This increase of EUR 2,495 thousand is explained in the table below:

(in thousands of euros)	2015	2014	Change
Operating profit	**1,649**	**(846)**	**2,495**
ESI North America debt write-off [1]		3,538	(3,538)
TOTAL EXCLUDING ESI NORTH AMERICA DEBT WRITE-OFF	1,649	2,698	(1,043)
Increase in revenues			10,670
Decrease in production held as inventory			(736)
Increase in external expenses			(12,257)
Change in capitalization of research and development costs			2,536
Increase in salaries and social charges			(1,279)
Change in provisions for contingencies and risks (operating result)			155
Change in provision allowances and/or reversals, and losses on current assets			(63)
Change in depreciation and amortization allowance			(371)
Other change			302

TOTAL CHANGE			(1,043)
(1) Debt write-off recorded in 2015, but related assets depreciation recorded in 2014.			

The financial result is a profit of EUR 522 thousand versus a profit of EUR 291 thousand in 2014. Financial result can be broken down as follows:

(in thousands of euros)	2015	2014
Foreign exchange currency result and provision for foreign exchange	1,784	696
Depreciation of controlling interests	(910)	-
Reversal of provisions on receivables related to controlling interests	150	-
Interest on borrowings	(391)	(292)
Interest on current accounts, subsidiary payables and receivables	29	11
Other financial income (expenses)	(140)	(124)
TOTAL	**522**	**291**

Current income before tax is a profit of EUR 2.2 million.

The Company has also recorded EUR 341 thousand of exceptional loss, essentially composed of EUR 217 thousand accelerated capital allowances on subsidiaries' acquisition costsand of EUR 151 thousand of accelerated amortization of previous syndicated loan issuance expenses (early terminated in 2015). The Company recognizes a credit tax income of EUR 2.2 million that corresponds to a corporate tax expense of EUR -0.8 million, to a tax credit for research of EUR 2.8 million and to a tax credit for competitiveness and employment of EUR 0.1 million

Net profit stands finally at EUR 4.0 million, versus EUR 1.1 million in 2014.

Equity rose by EUR 4.3 million, from EUR 87.7 million to EUR 92.0 million due to retained earnings (EUR 4.0 million), capital increases after the exercise of stock options (EUR 0.1 million) and change in regulated provisions (EUR 0.2 million).

ESI Group's working capital stands at EUR 8.2 million:

(In millions of euros)	2015	2014
Equity	92.0	87.7
Provisions/reserve	1.4	2.4
Borrowings and conditional advances [(1)]	43.3	20.5
Short-term borrowings [(1)]	(13.6)	(11.4)
LONG-TERM CAPITAL	123.1	99.2
Net assets	114.9	90.8
WORKING CAPITAL	8.2	8.3
Working capital requirement	(1.3)	(2.2)
CASH AND CASH EQUIVALENTS	**7.0**	**6.2**
(1) Reclassification in 2014 of EUR 7.5 million of commercial paper in bank borrowings in order to restore comparability of data.		

In spite of the financial debt's increase further to recent acquisitions, the Group's financial position remains strong. Equity represents 75% of long-term capital, versus 88% in 2014.

In accordance with Articles L. 441-6-1 and D. 441-4 of the French Commercial Code regarding reporting of payment terms, at January 31, 2016, the balance of ESI Group's liabilities to its vendors could be broken down as follows:

	2015		2014	
Term	Trade payables	*(In thousands of euros)*	Trade payables	(In thousands of euros)
≤ 30 days	28.21%	(5,314)	37.17%	(5,550)
30 to 60 days	16.33%	(3,075)	7.07%	(1,055)
60 to 90 days	1.81%	(342)	3.36%	(501)
90 to 120 days	4.27%	(805)	6.92%	(1,033)

> 120 days	49.37%	(9,299)	45.48%	(6,792)
SUB-TOTAL	100.00%	(18,835)	100.00%	(14,932)
Invoices not received	N/A	(11,645)	N/A	(7,720)
TOTAL		**(30,480)**		**(22,652)**

Terms greater than 120 days are debts towards subsidiaries of the Group.

4.1.4.2. Allocation of profits

Net profit for the fiscal year ended January 31, 2016 comes to EUR 34,272,561.70.
Origin:

- Net profit for the year: EUR 4,035,722.76;
- Profit carried forward: EUR 30,236,838.94;
- Total to be allocated: EUR 34,272,561.70.

We propose to allocate as follows:

- EUR 144,753.48 to the legal reserve;
- EUR 34,127,808.22 to profit carried forward;

Following this allocation, the balance of the legal reserve stands at EUR 1,786,521.60, representing 10% of share capital.

4.2. Outlook

4.2.1. Events after the reporting period

In February 2016, ESI announced the acquisition of Mineset Inc., a big data visual analytics and machine-learning specialist. This acquisition will allow ESI Group to amplify its virtual engineering solutions thanks to a disruptive approach. Indeed, Mineset's technology and its human-in-the-loop iterative analytics with an intuitive user interface will be integrated within ESI Group's overall Virtual Engineering offer and adapted to each specific application in the product-design process. Significantly improving decision-making processes, big data analytics, pattern recognition and machine-learning technology will enhance ESI Group's solutions with new capabilities in terms of simulation result analysis, discovery of hidden correlations, fault detection, predictive maintenance and design optimization. This will thus contribute to the delivery of better simulation and modeling results and, subsequently, to a reduction in production and maintenance times.

4.2.2. Business trends

The quality of the business indicators in the first months of 2016, combined with recent strategic advances in recent acquisitions, place ESI Group in an ideal position to increase its business volume and achieve profitable growth this new fiscal year.

The business dynamic will also be supported by the accelerated growth of ESI Group in markets of the future, such as advanced driver assistance systems (ADAS) vehicle safety, visualization and exploitation of scientific Big Data, mechatronic and multi-domain 0D-1D systems, machine learning, or even the Internet of Things (IoT). This diversification, into areas with strong potential derives in particular from numerous acquired companies since 2015 and early 2016. Some acquisitions have an established commercial base which broadens diversification across industry sectors. Also, they play a role in reinforcing the innovative potential of ESI Group's digital modeling and Virtual Prototyping solution. The Group expects to draw on its solid experience in acquisitions to successfully integrate these acquired top class companies.

Because it is aware how crucial competitive innovation is to its leadership in guiding manufacturers to the smart numerical factory, ESI Group expects further improvement of its economic performance combined with a sales growth and the deployment of acquired solutions.

4.3. Report on Corporate Social Responsibility (CSR)

4.3.1. ESI Group approach in terms of social and environmental responsibility

Aware of its responsibility in each of the three pillars of sustainable development, ESI has gradually devised a CSR policy that contributes to shared economic and social development and the preservation of human equilibrium. In 2015, the Company finalized formalizing the major areas and commitments of its approach.

From the outset, by developing innovative virtual prototyping products, ESI has sought to measure the impact of its solutions on society. Indeed, ESI's solutions enable reductions in the number of physical prototypes, which are costly and require large amounts of energy, raw materials and time, and bring to the market production which is more environmentally friendly and socially responsible. Furthermore, making models virtual also means optimizing the sustainability of products by letting manufacturers the possibility to refine their reflection on the solutions they put into production and spend more time on socially important issues such as safety, comfort and performance. ESI Group's ambition is to become the leader in Virtual Prototyping through responsible innovation. The Group therefore plans to be the favored development partner for its clients, able to understand and assist them in their approach in bringing to market quality products that are also sustainable, ethical and highly resource-efficient.

Within the Group, CSR policy is seen as a genuine corporate commitment and one that will create value. In 2015, the actions carried out by the Company were all focused in this direction. ESI has made a list of the stakeholders inside and outside the Group on whom it has the greatest influence: employees, customers, the environment and civil society, towards all of whom serious commitments have been made.

This third CSR report outlines a wider scope as described in section 4.3.1.3.

4.3.1.1. Commitments

Divided into 4 axes and declined in 8 commitments, the CSR strategy aims at ensuring to its employees harmonious work conditions, providing its customers with innovating solutions allowing them to become long-term partners and limiting the Group's and its customers' environmental footprint while acting ethically and responsibly within civil society.

1. Being a committed employer

- Develop talents and encourage leadership and collaborative management;
- Promote diversity and global thinking.

2. Being an outstanding partner

- Provide innovative and sustainable high-quality solutions that meet our customers' requirements;
- Build long-term, trusting relationships.

3. Being an environmentally friendly player

- Develop solutions that will help reduce the environmental footprint of manufacturers and comply with regulatory requirements;
- Limit the environmental impact of our global offices.

4. Serve civil society

- Boost innovations and establish partnerships with the academic and scientific communities;
- Act ethically and responsibly.

4.3.1.2. ESI Group values

ESI strongly affirms its values, which infuse its culture and its ambition which is to be a highly respected organization that has produced innovation for the sake of its customers and its employees for more than 40 years.

ESI's values — Passion, Global, Change, Trust, Social Responsibility and Energy — anchor its identity and fit logically together, as can be seen in the corporate social responsibility actions defined below.

4.3.1.3. Our CSR efforts

An evolving approach

In 2013 the Group carried out diagnostics that enabled it to make an inventory of the existing process, survey the measures and initiatives taken in support of sustainable development and identify the relevant indicators, which were real issues for the Group.

Starting in 2014, the Group's CSR has been guided by a pragmatic goal of continuous improvement, as ESI seeks to advance the implementation of best practices in the areas where it has the greatest responsibilities and the greatest impact.

The collection of quantitative and qualitative data has been organized in close collaboration between top Management and the various professional groups in the countries, with the goal of gradually broadening the scope until it covers every subsidiary in a reliable manner.

The data available are sorted into three geographic areas corresponding to the Company's business divisions:

- Americas = United-States and Brazil;
- Asia-Pacific = China, South Korea, Japan, Vietnam, India and Malaysia;
- Europe, Middle East and Africa = Germany, United Kingdom, Spain, France, Italia, Netherlands, Czech Republic, Russia, Sweden, Switzerland, and Tunisia.

Scope

In keeping with its commitments, ESI Group continued in 2015 its actions to expand the gathering and analysis of indicators internationally.

- Scope of social reporting:

Using the employment data management software (called HR-IS, or human resources information system) installed in 2012, the majority of employment indicators, now managed on a single source, have been analyzed for the entire workforce since 2013. Furthermore, thanks to the annual worldwide survey conducted in on the operations, legislation, practices and norms of the different subsidiaries, the Group now has a reliable, international picture of all employment indicators. One exception remains, though, concerning the absenteeism rate, which not all subsidiaries are able to report in a sufficiently reliable way, partly due to terminology and partly to local practices. To improve this situation, these indicators previously provided only for France are extended to Germany, Czech Republic and Japan for the year 2015. All entities are organizing an efficient follow up for these indicators that will allow a regular extension of the perimeter for the two next year until full coverage.

- Scope of environmental reporting:

The scope for environmental data is France, Germany, Czech Republic, Japan and United-States representing more than 62% of the total workforce.

- Scope of societal reporting:

The scope for societal data is France, Germany and United-States, representing 50% of the total workforce.

4.3.2. Being a committed employer

- Develop talents and encourage leadership and collaborative management
- Promote diversity and multicultural exchanges

The Human Resources Information System (HR-IS), implemented in 2012, consolidates the HR reporting process worldwide and lends greater flexibility to the organization. It also promotes better use of resources by focusing on skills, to encourage a more involved, multi-disciplinary managerial culture.

The platform provides an ongoing view of changes in employment indicators and makes it possible to drive our resource needs more easily.

A selection of employment indicators is provided monthly to the Management Committee in order to measure the effectiveness of HR policies.

The data from HR-IS are provided on a worldwide scope, while fully respecting individual privacy and confidentiality requirements of different geographies.

4.3.2.1. Employees headcount

ESI's employees consist primarily of highly-trained engineers and Ph.Ds. from prestigious universities and institutes in France and abroad. In addition to the close relationship that ESI has always had with these schools, there are a number of other factors that exemplify ESI's commitment to value employees' experience and foster highly qualified recruitment and internal development. For example, ESI's positioning in the field of virtual simulation that takes into account the physics of materials, the Group's prominence as a publicly listed company on the Paris stock exchange, the Group's continuing education programs and its focus on internal promotion within its international network.

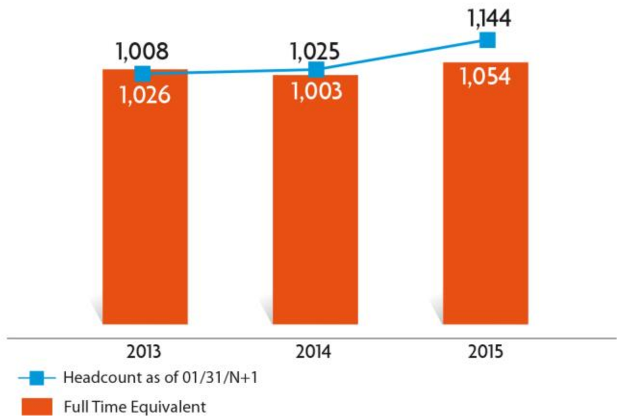
Data related to headcount are calculated on the number of employees on January 31, 2016.

The Group's total headcount includes permanent and fixed-term employees as well as those on student contracts such as work/study and internships. It does not include temporary workers, consultants and external distribution networks.

At January 31, 2016 the ESI Group workforce consisted of 1,144 employees as against 1,025 for FY2014 and includes 84 employees from companies acquired during the fiscal year 2015 (of which 68 coming from the acquisition of ITI). The average headcount in 2015 was 1,054 employees from which 22 resulting from FY2015 acquisitions, against 1,003 in 2014.

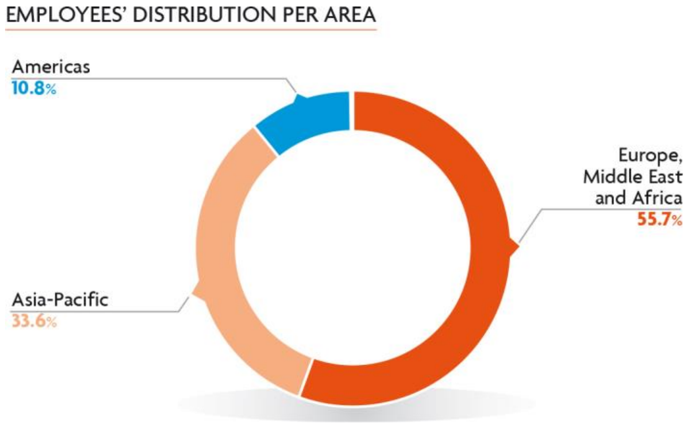
With very few limited employment contracts, 97.7% of the Group's workforce is on permanent contracts. Internships and apprenticeships account for 1.6% of the total workforce.

EVOLUTION OF NUMBER OF EMPLOYEES OVER 3 YEARS

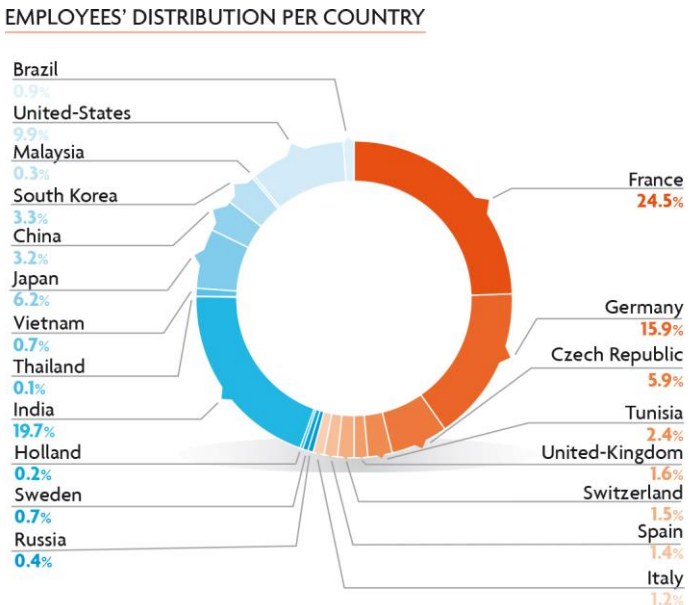


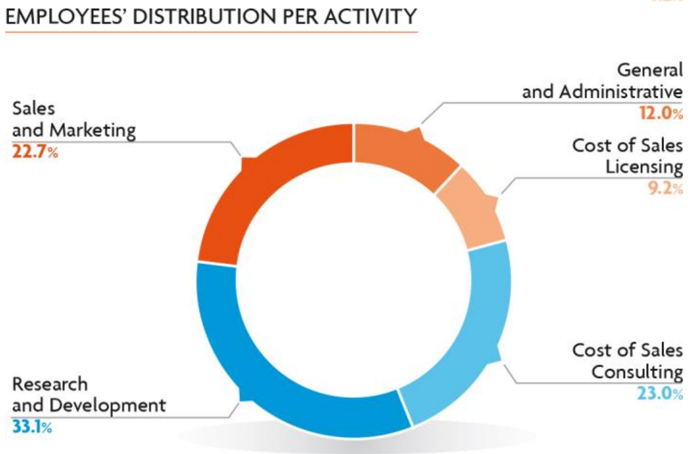
In 2015, ESI pursued its ambition to control its staff in connection with business growth. It should be noted that the scope is not comparable from one year to the next because of mergers and acquisitions made over the period. Also, at the close of 2013 staff left employment in the direct operation in China to form a joint venture.

The charts below present a breakdown of employees by region, country and general business activity.



Note: Among the 55.7% of employees located in the Europe/Middle East/Africa region, 53.2% are located in Europe.





Research & Development resources

These teams are made up primarily of highly-educated engineers; their expertise and experience are key to the Group's value added.

R&D teams are primarily located in France, India and the United States, where synergy and versatility of teams are developed.

Sales & Marketing activities

At the central level:

- Product Marketing;
- Marketing and Communication;

– Business development for the sale of products and related services in the deployment phase.

At the distribution level:

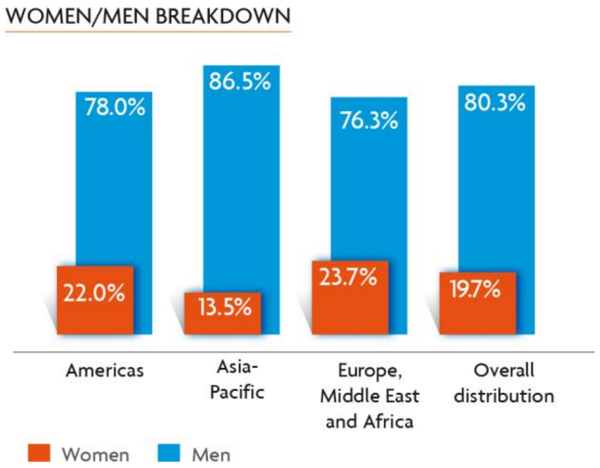
– Pre-sale support;
– Direct sales;
– Customer support.

Consulting and Support

These teams are made up of engineers in charge of projects production and engineers responsible for providing technical support (including via a hotline) both directly to customers and via our subsidiaries.

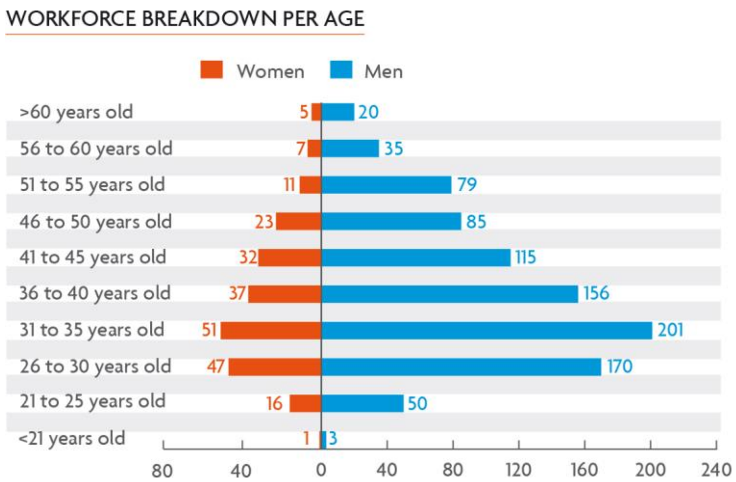
General & Administrative costs

Consisting of teams from Legal, Quality, Finance and Human Resources departments, along with a part of management and IT teams.



The percentage of women among permanent employees was 19.7%, which is relatively low and unchanged from previous years. This low representation is primarily due to the small number of women in engineering schools, which are our main source for recruiting. The proportion of women is very low in post-secondary engineering courses (12.9% in 2012). Female students are much better represented in the social sciences, biology and psychology (62% in 2012). The poor representation of women in engineering is even more pronounced in Asia, where females made up 2.6% of students in 2012 (source: NFS Study, "Women, Minorities, and Persons with Disabilities in Science and Engineering" – January 2015).

Nevertheless, our HR professionals are aware of the need to add women to local teams and carefully consider female candidates whenever the Group is hiring. In 2015, 57 women joined the Group, which represents 22% of total new recruits.

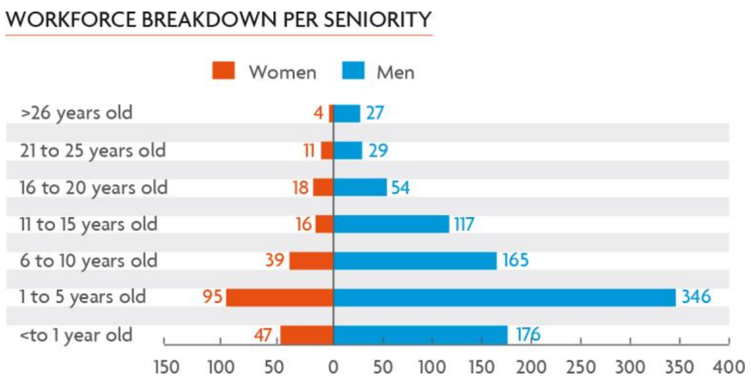


The average age of employees is 38 years (male employees: 38.3 years / female employees: 37.3 years).

ESI Group is compliant with the laws in favor of hiring and continuing to employ people regardless of their age. Thus 15.5% of employees are aged 50 or more, i.e. 177 people worldwide (149 men and 28 women).

67.8% of those aged 50 years and older are located in Europe, compared to 20.3% in the Americas and 11.9% in Asia.

In addition, 43% of Group employees are under 35 years of age, which contributes to the employment of young people overall. In 2015, 69.5% of employees hired were younger than 35.



The average length of service in the Group is seven years. This relatively low level of seniority is due on the one hand to the high proportion of employees under the age of 35 (43.1%), who are currently in a strong position on the labor market and therefore more mobile early in their careers, and on the other hand to the fast growth of the software publishing industry.

The average length of service for employees over the age of 35, however, is 10 years.

4.3.2.2. Employee turnover

Recruitments (excluding acquisitions)	2013	2014	2015
EUROPE, MIDDLE-EAST AND AFRICA	105	98	92
Permanent contracts	72	58	47
Temporary contracts	11	6	5
Apprenticeship/ traineeship	22	34	40
AMERICAS	26	26	26
Permanent contracts	19	15	19
Temporary contracts			2
Apprenticeship/ traineeship	7	11	5
ASIA-PACIFIC	32	63	62
Permanent contracts	32	59	59
Temporary contracts		3	2
Apprenticeship/ traineeship		**1**	**1**
TOTAL	**163**	**187**	**180**

Exits	2013	2014	2015
EUROPE, MIDDLE-EAST AND AFRICA	68	91	83
Permanent contracts	39	52	43
Temporary contracts	6	7	5
Apprenticeship/ traineeship	23	32	35
AMERICAS	75	27	33
Permanent contracts	62	19	27
Temporary contracts		1	
Apprenticeship/ traineeship	13	7	6
ASIA-PACIFIC	61	39	40

Permanent contracts	61	39	37
Temporary contracts			2
Apprenticeship/ traineeship			1
TOTAL	**204**	**157**	**156**

In 2015, ESI Group hired 125 employees on permanent contracts, with a very low rate of temporary contracts (5%). To these hirings are added 84 employees integrated in the course of the year because of the mergers.

The departure rate of permanent employees in 2015 was 10.2% [(departures/average headcount) x 100] as against 12.6% in 2014.

The 2015 turnover rate excluding temporary employees was 11.9% [((departures in year N + new hires in year N)/2)/average headcount in year N-1] x 100] as against 12.2% in 2014.

4.3.2.3. Work organization

Work schedules

FULL-TIME	
Women	204
Men	896
PART-TIME	
Women	26
Men	18
TOTAL	**1,144**

In 2015, 3.9% of the total workforce was part-time; additionally, most part-time jobs are created to meet the needs of employees who request them.

The length of the working week is set in compliance with local legislation.

The global average working week is 39.8 hours.

In the great majority of its subsidiaries, ESI Group offers its employees flexible work schedules. In some countries, particularly Japan, schedules are set to meet the requirements of the job but are limited to eight hours per day.

In France, work hours are organized based on days worked or according to a fixed schedule. An employee who works on a days-worked basis works a certain number of days during the year, while an employee who works on a schedule basis works the number of hours stipulated under the employment agreements:

- Managers who work on a full-time, days-worked basis, work 217 days per year, plus one extra day for France's "national solidarity day";
- Non-managers work an average 35-hour workweek following France's "RTT" (days off) law to reduce work hours

Absenteeism

Absenteeism is monitored locally in accordance with the regulations in force in the various countries where ESI is present. The Group does not have a standardized system in place to manage absences across all of its subsidiaries.

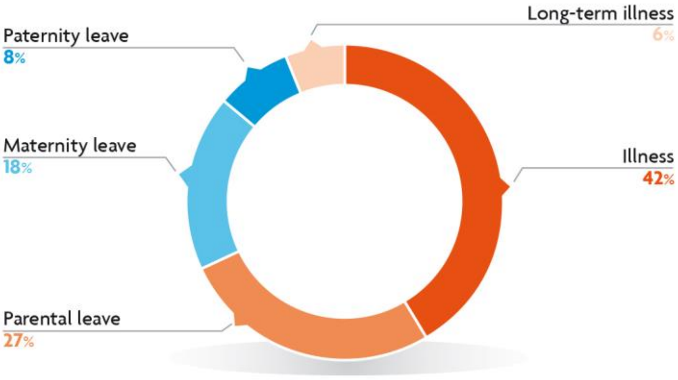
However, while taking into account the variety of laws and the numerous particular factors considered by countries in terms of absenteeism as well as local management of this information, ESI Group has chosen to extend the definition of absenteeism to the following circumstances:

- Absence of an employee due to illness for any length of time;
- Long-term absence (more than 20 business days) due to illness;
- Leave granted to parents following the birth or adoption of a child in their household (maternity and paternity leave);
- Parental leave granted to parents so that they can raise their young children (the legal duration of this leave varies according to local laws);
- An accident that befalls an employee while performing his or her job or during job-related travel (workplace and travel accidents);
- Or an illness that befalls an employee due solely to his or her work in the Company (occupational illness).

Information on absenteeism for 2015 was gathered for France, Germany, the Czech Republic, and Japan. Please note that the information for Germany does not include absences of employees integrated into the Group via mergers and acquisitions over the course of the year.

The Group's intention is to be able to measure the impact of these days of absence on the employment of staff so as to make the necessary corrections to our procedures, working conditions and, if necessary, internal safety procedures.

BREAKDOWN OF ABSENTEEISM IN NUMBER OF DAYS



In 2015, absences related to birth, adoption, or raising of one or more children represented more than 50% of absences within the selected parameters.

The Group's business is such that the great majority of its employees are sedentary, limiting the risk of workplace accidents. Any day of absence for workplace accident, job-related travel or occupational illness has been noted on the total of subsidiaries.

This can be partly explained by the high proportion of employees under the age of 40 years old within the Company.

4.3.2.4. Recruiting and retaining talent

The Group pays special attention to the entry of new hires through an induction program managed locally by each subsidiary. In order to standardize and globalize the induction process for new employees, an integration program is being implemented to guide and support subsidiaries in their assistance to new employees during their first days, weeks and months on the job at ESI Group.

The Group is currently defining a dynamic internal mobility program to highlight the skills of each employee and thereby promote their internal development. Internal mobility allows us to retain the expertise and skills of employees while increasing their ambitions to contribute to new experiences.

4.3.2.5. Professional development, training and career management

Professional development and career management

The Group has an individual performance and development review process that calls for at least one meeting per year between an employee and his or her supervisor in order to evaluate the employee's performance during the past year in relation to predetermined objectives and to set goals for the coming year.

95% of all Group employees underwent a performance evaluation interview during the 2015 fiscal year, a 32% significant increase compared to 2013.

These assessment interviews are the most important source for collecting information as to training needs and staff development, and make it easier to construct appropriate local training plans that meet the needs of a changing business. These evaluation interviews also present the opportunity to identify the company's greatest potential talents and put in place professional development to help those employees grow within the company. Additionally, this system particularly provides support for certain employees via an individualized plan for improving performance.

Professional training

Training programs have also been implemented within the Group's various subsidiaries. Training plans are in line with ESI Group's strategy and market trends. They allow employees to learn more about the portfolio of solutions available and to boost their managerial and professional skills (techniques, sales, etc.).

This year, 544 employees or 47.5% of the workforce, received training, at a cost to the Company of EUR 382 thousand. France, India and Czech Republic were particularly active this year with the organization of actions helping over 80% of their respective workforce.

In total for 2015, 8,974 training hours were provided, or an average of 16.5 hours of training per trained employee.

Actions supporting apprenticeship

Numerous partnership agreements have been signed with universities and engineering schools and allow ESI Group to play an active role in the training of young people. In Europe, one can point to the École centrale de Paris, the Technical University of Dresden (Germany), the University of West Bohemia (Czech Republic), ENIT of Tunisia, etc., with which ESI Group has special arrangements.

The Universities of Alabama, Shanghai and Beijing, along with the Indian Institute of Sciences among others, work closely with ESI in the Americas and in Asia-Pacific.

Additionally, the Group is very involved in working with young people and has integrated 62 students in 2015 (51 interns, four apprenticeships and seven doctoral students).

4.3.2.6. Labor relations

Employer-employee dialogue

The quality of the employer-employee relationship is guaranteed through frequent exchanges between the Group's management and the employees and their representatives.

The employee representative bodies are appointed in accordance with the applicable laws in the countries. We had 17 employee representative bodies at our various sites in Europe and Asia-Pacific.

These bodies, based in United Kingdom, France, Germany, China, Japan and India, involved a total of 46 employees who actively participated in a total of 47 meetings during 2015.

- Summary of collective agreements: the French subsidiary signed a variety of agreements with its employee representatives, such as the reduced workload agreement, the profit-sharing agreement and the company savings plan agreement;
- Summary of agreements relating to health and safety: no company signed an agreement in this regard.

Health and safety

ESI Group has set as an objective to provide high quality welfare cover for all its employees throughout the world with regard to healthcare, aging, disability and death. This cover takes the form of policies that are best tailored to the needs of employees and in compliance with local regulations and cultures.

The subsidiaries already offer all their employees supplementary health insurance, except for Tunisia where a majority of the employees, when asked to vote on a collective plan, declined the subsidiary's offer. A new proposal will be done in June 2016.

In addition, eight subsidiaries in Europe and two in Asia-Pacific have an organization whose mission is to monitor and advise the Company and its employees about risks related to workplace health and safety. In all, 24 employees are involved in these local organizations.

4.3.2.7. Well-being at work

The Group is aware that improving conditions at work has a direct impact on the well-being, effectiveness and motivation of employees and that it significantly improves the Company's overall performance.

The majority of projects carried out for our customers are completed in-house, in that engineers do not necessarily need to be at the customer's site to develop or apply the software. This limits lengthy travel by employees and so improves the balance between personal life and working life.

Furthermore, in the various countries a range of initiatives has been undertaken in recent years in favor of employees' well-being.

The Rungis site in France, the Plsen site in the Czech Republic and the Tunisian site have pleasant, well-equipped break rooms where employees, can meet, relax and eat meals.

At the Neu-Isenburg (Germany), Plsen (Czech Republic) and Rungis (France) sites, showers are available to employees who wish to exercise during their lunch break. In the Czech Republic a table tennis table has been set up, offering moments of relaxation to employees, who can also receive a massage each week.

In addition, in the majority of countries (India, Japan, South Korea, China, Germany, Czech Republic, Tunisia, United States, etc.) employees have self-service hot drinks available, and even fruit.

In France, an initiative between the Health, Safety, and Working Conditions Committee (CHSCT) and the Human Resources Department has led to a study of psychosocial risks for support positions. In accordance with a study conducted by an external group, the French subsidiary established working groups whose mission is to develop proposals and recommendations for the organization and management of time. Through this collaboration, the subsidiary hopes to considerably improve employees well-being based on their requests.

4.3.2.8. Equal opportunity and anti-discrimination

Gender equality

The ESI Group strives to comply to all its subsidiaries with the applicable regulations regarding gender equality in the workplace and non-discrimination. Job postings are written in a unisex manner.

Principles of non-discrimination

In 2015, ESI Group drafted its ethics charter in order to promote the observance of its values and to confirm its commitment to the main rules of conduct that the Group wants to see applied internally. This ethics charter reaffirms the legal, regulatory and internal provisions relating to the respect of fundamental rights at work, professional integrity, the elimination of discrimination, and the prohibition of child labor and forced labor.

This charter is based on the observance of the ethical rules promoted by the conventions of the International Labor Organization. The charter was submitted to all employees in the first half of 2016.

To provide more detailed information, particularly as regards gender equality and non-discrimination, the Group completed its social HR database by introducing the status of Manager for individuals who supervise one or more employees. 14.5% of our managers are women.

Inclusion of employees with a disability

The Company has undertaken to ensure that employees with a disability have access to all advertised positions.

On the whole scope, the Group employs one person with disabilities in Asia.

4.3.2.9. Compensation

To attract and retain the best talent on the market, ESI Group offers an attractive compensation and benefits package. This policy aims to recognize employee talent by rewarding both individual and collective performance.

The compensation of employees comprises both direct and indirect elements. The latter includes deferred cash or in-kind additions to their monthly compensation (bonuses, commissions, savings plan, benefits, etc.).

All the countries in the employment reporting scope offer their employees indirect compensation.

In Europe and the Americas six subsidiaries out of 15 have created an employee savings program.

The FCPE for employee shareholders, created in France in 2013 to house future profit sharing amounts and voluntary contributions within the Company savings plan lasting until 2015, acquired 21,463 shares of ESI Group during its first subscription period of November 2013, on behalf of 151 employees. Total subscriptions by French employees were EUR 340,403. Given the success of this operation in France, with a 60% participation rate, senior management would like to encourage investment by the employees of the Group's foreign subsidiaries in ESI stock so that all employees will have a stake in the Company's development.

In 2015, there were 112 voluntary payments into the ESI ACTIONS fund totaling EUR 110,640. As regards these voluntary payments, the matching contribution was EUR 57,264 gross, and EUR 52,683 net.

CROSS-REFERENCE TABLE - INDICATORS REQUIRED BY ARTICLE R. 225-105-1 OF THE FRENCH COMMERCIAL CODE - EMPLOYMENT INFORMATION

1.1 | Employment	1.1.1 | Total workforce and breakdown by gender, age and geographic area	4.3.2.1.
	1.1.2 | Hirings and layoffs	4.3.2.2.
	1.1.3 | Compensation and changes in compensation over time	4.3.2.9.
1.2 | Organization of work	1.2.1 | Work schedules	4.3.2.3.
	1.2.2 | Absenteeism	4.3.2.3.
1.3 | Labor relations	1.3.1 | Organization of employer-employee dialogue	4.3.2.6.
	1.3.2 | Summary of collective agreements	4.3.2.6.
1.4 | Health and safety	1.4.1 | Workplace health & safety conditions	4.3.2.6.
	1.4.2 | Summary of agreements signed with trade unions or employee representatives in respect of workplace health and safety	4.3.2.6.
	1.4.3 | Workplace accidents, in particular their frequency and severity, as well as occupational illnesses	4.3.2.3.
1.5 | Training	1.5.1 | Policies implemented in terms of training	4.3.2.5.
	1.5.2 | Total number of training hours	4.3.2.5.
1.6 | Equal treatment	1.6.1 | Steps taken in support of gender equality	4.3.2.8.
	1.6.2 | Steps taken in support of employment and inclusion of people with a disability	4.3.2.8.

	1.6.3 | Anti-discrimination policy	4.3.2.8.
1.7 | Promotion and observance of the fundamental conventions of the International Labor Organization	1.7.1 | Observance of freedom of assembly and the right to collective bargaining	4.3.2.6.
	1.7.2 | Elimination of discrimination in employment and occupation	4.3.2.8.
	1.7.3 | Elimination of forced or mandatory labor	4.3.2.8.
	1.7.4 | Effective elimination of child labor	4.3.2.8.

4.3.3. Being an outstanding partner

- Provide innovative and sustainable high-quality solutions that meet our customers' requirements;
- Build long-term, trusting relationships.

4.3.3.1. Subcontracting and suppliers

ESI Group has a wide range of internal skills that cover its software publishing activity on the one hand and its services activities on the other hand. However, when it is necessary to mobilize resources outside its usual scope of business, or when specific expertise is recommended, ESI Group may occasionally use external providers.

ESI Group remains fully responsible for all outside subcontractors. In this regard, the subcontractors are subject to the same rules and verifications as any other employee of the Company.

To provide its customers with quality products, ESI Group follows a specific procedure to monitor and regularly evaluate all suppliers having an effect on quality. A list of approved suppliers is made available for this purpose on the intranet and updated periodically.

A comprehensive approach to quality

In 2000, ESI Group obtained its first ISO 9001 certification, followed by the independent certification of its subsidiaries, so as to guarantee the quality of its products and services and ensure the satisfaction of its customers. Since 2010, ESI Group has extended the scope of its certification using a system common to all its subsidiaries. Since risk management and quality management are closely linked processes, this worldwide certification is a sign of confidence in the quality of the solutions that the Group offers its customers and offers a guarantee that particular attention is given to excellence and to the alignment of all the Group's processes.

In 2015, the overall certification applied to 83% of the workforce as compared to 72% in 2014.

Global certification is now successfully applied in Europe, Asia and the United States, within the ESI Group parent company and most of its subsidiaries: ESI US R&D, ESI France, ESI Japan, Calcom ESI SA in Switzerland, ESI SW India, ESI SW Germany, ESI NA in the United-States, ESI Mecas in Czech Republic and ESI Tunisia. FY2015 also proved to be very successful with the integration of three new entities: ESI GmbH, ESI Korea and ESI China.

In 2016, the integration of additional entities will continue and the risk based approach requested by the new ISO:2015 standard will be gradually deployed across the company's entities. ESI Group's objective is to have full global certification by 2020.

In France, all hired people (including all types of contacts of more than six months) have to take training in Quality. In 2015, this represented 46 persons for a total of 92 hours of training.

The benefits of ISO 9001 certification accrue to outside as well as in-company stakeholders. Outside the Company, certification guarantees that ESI Group provides products and services that meet the needs of its customers, while it continues to evaluate and improve its processes. Within the Company, certification calls on employees to actively engage in an overall consistent management system.

4.3.3.2. Fair trade practices

The laws governing our activities enable the Company to develop and foster our long-term growth. That is why all employees must comply with them.

Relations with our business partners

The Company strives to establish transparent and loyal business dealings and to deal honestly and fairly with all clients, no matter the size of their company. The Company is committed to providing quality products and services to its clients which meet their needs.

Purchasing decisions are made based on an objective assessment of the reliability and integrity of the supplier or subcontractor, as well as the overall appeal of their offer in relation to short- and long-term aims and considerations. In order to protect the Company’s interests, goods and services are purchased based on price, quality, performance, delivery, and suitability criteria. The Company takes care not to create a situation of dependence with suppliers and subcontractors.

Also, the Company requires its suppliers and subcontractors to strictly comply with all legal provisions relating to their activities and their professional environment.

Actions taken to prevent corruption

The Group's Ethics Charter strictly prohibits any form of corruption in its relations with its business and institutional partners and with the administration. No financial or in-kind gratuities may be given with a view to obtaining an advantage, nor may such gratification be received to benefit a company or person.

Therefore, it is prohibited to pay, offer or agree to pay for gifts, bribes or other gratifications, or to grant undue benefits, whether directly or via an intermediary, to a public agent and/or a private person in any country with a view to obtaining favorable treatment or influencing the outcome of a negotiation which involves the Company.

Moreover, the Company is prohibited from directly or indirectly receiving or giving, promising or soliciting illegal payments or other undue benefits with a view to granting, obtaining or maintaining a contract or any other advantage.

Fraud and money laundering

Fraud and money laundering are processes that disguise the illegal origin of money, typically associated with criminal activity. The Group's Ethics Charter stipulates that ESI Group respects laws on fraud and money laundering and conducts business only with reputable partners.

Beside, each employee has to be vigilant regarding any payments made in order to detect any irregularities, notably with partners whose business conduct may raise suspicion.

Compliance with antitrust laws

Competition is necessary for economic efficiency. It is one of the essential conditions of the open and fair economy in which the Company believes. Consequently, the Company prohibits any exchange of confidential information and any arrangement –formal or informal – or attempt to enter into arrangements with competitors which seek to fix prices or conditions of sale, to share a market or to boycott a particular market actor, for example in the course of meetings of professional organizations or associations.

Furthermore, the Company refrains from abusing a dominant position or a monopoly and from acquiring or maintaining a dominant power other than by recognized legitimate means such as patents, skills, superior know-how or a geographical situation.

Measures promoting the health and safety of consumers

Due to the nature of its business, rooted in the sale of software and services, the Group's impact on the health and safety of its direct customers is very limited.

However, the products developed by ESI Group are used to bring to market innovative products at a lower cost and with greater reliability. The Group's virtual prototyping solutions enable it to satisfy its customers' main needs, namely to:

- Identify challenges in terms of safety and performance early in the design cycle;
- Assess ways in which new materials and manufacturing processes will impact the overall performance of the product and its operation;
- Predict the performance of equipment used in extreme conditions and anticipate any necessary adjustments.

Virtual Prototyping gives manufacturers a "live" and comprehensive vision of problems in relation to manufacturing, assembly and coupling between the characteristics of different products and their performance. It provides vital information during the successive iterations of the design phase, and offers the privilege of anticipating the results of physical tests, allowing the necessary changes to be carried out before the actual manufacture of a product.

CROSS-REFERENCE TABLE – INDICATORS REQUIRED UNDER ARTICLE R. 225-105-1 OF THE FRENCH COMMERCIAL CODE – SOCIETAL INFORMATION

3.3 | Subcontracting and suppliers	3.3.1 | Consideration of social issues in the purchasing policy	4.3.3.1.
	3.3.2 | Consideration of environmental issues in the purchasing policy	4.3.3.1.
	3.3.3 | Amount of subcontracting and consideration of the social and environmental responsibility of suppliers and subcontractors in relationships with them	4.3.3.1.
3.4 | Fair trade practices	3.4.1 | Action taken to prevent corruption	4.3.3.2.
	3.4.2 | Measures promoting the health and safety of consumers	4.3.3.2.

4.3.4. Being an environmentally friendly player

- Develop solutions that will help reduce the environmental footprint of manufacturers and comply with regulatory require-ments;
- Limit the environmental impact of our global offices.

Scope adopted: France, Germany, Czech Republic, Japan and United-States.

4.3.4.1. Overall environmental policy

ESI Group believes that environmental responsibility should be a priority for all companies, and strives to reduce its environmental impact both directly and indirectly.

However, considering the nature of its activity — sales of software and consulting services — the Group believes its impact on the environment to be very limited. All of its activities are carried out in offices.

The main environmental challenges facing the Group are:

1. Externally: to help clients significantly reduce their environmental footprint by providing solutions allowing the realistic simulation of the behavior of a product throughout the design, manufacturing and assembly cycle:

2. Internally, to limit impacts linked to:

- Emissions of greenhouse gases associated with travel by Group employees,
- Waste electrical and electronic equipment (WEEE),
- Energy consumption in its buildings and data centers.

Aside from these direct environmental impacts, ESI Group enables its clients to significantly reduce their environmental footprint with the use of its virtual prototyping solutions. Digital prototypes can significantly reduce consumption of raw materials and energy, and help achieve compliance with environmental standards for new products.

In view of its business, ESI Group has no knowledge of industrial or environmental risks liable to have a significant impact on its assets or earnings. Most of its assets being intangible in nature, ESI Group believes that its environmental footprint is very small.

Indeed, the Group does not expect to have major exposure to climate change in the short to medium term; to the best of its knowledge, ESI Group's activities do not have a significant negative impact on biodiversity, and do not generate noise or odor liable to affect local residents; no site in its scope generates hazardous waste or environmentally detrimental discharges into the air, water or soil (excluding electrical and electronic equipment); no French site has ICPE (Classified Installations for Environmental Protection) or Seveso classification; all ESI Group sites are located in urban areas, and their water is accordingly supplied by urban networks. No real supply constraints have been reported.

Lastly, given the limited industrial and environmental risks inherent to the Group's operations, costs related to the assessment, prevention and treatment of industrial and environmental risks are not material. As all Group sites are leased, building improvement costs are borne entirely by the owners. ESI Group accordingly has no control over these aspects.

Moreover, no provisions or guarantees for environmental risks were recorded in the Group's 2015 consolidated financial statements.

Nevertheless, the Group is increasingly recognizing its responsibility for protecting the environment, and seeks to take initiatives in favor of sustainable development, as outlined below.

Awareness raising among permanent employees

For ESI Group, the implementation of an environmental policy only makes sense if all of the Group's employees are involved. That is why the Group constantly strives to raise its employees' awareness of measures taken to avoid the wasting of energy, and thereby to reduce its environmental impact.

4.3.4.2. Use of resources and measures to reduce consumption

Energy consumption

In 2015, electricity consumption on the Rungis site totaled 980,837 kWh, an average of roughly 7,006 kWh per employee. On the Ter@tec campus where ESI is involved, electricity consumption in 2015 totaled 104,505 kWh. Electricity consumption data are not available for the other French sites, as it is either included in rental charges or collective.

Total electricity consumption on the German, Japanese and Czech sites totaled 770,768 kWh, an average per employee of 2,408.6 kWh.

Energy consumption in the United States is not measurable since the facilities are leased. Energy usage is therefore included in the utility fees and re-evaluated annually, in which factors other than electricity are included.

ESI Group does not use renewable energy on the sites contained in the 2015 reporting scope.

To minimize energy consumption, the Group has installed LED lights at its Paris and Rungis offices as it was done at its Ter@tec site in 2013. In addition, during upgrades of certain workspaces in France, the Group has given preference to lighting with low power consumption, removed hot water tanks from restrooms, and refurbished the air conditioning. An energy audit was conducted in 2015 at the Group's site in Rungis, France. This audit will lead to improvements in 2016 such as installing a timer for the lighting system, or installing motion detectors for lights in hallways. Other actions are likely to be taken in the longer term such as optimizing management of when the ventilation system is running, or managing and optimizing the temperature of the cold water line; however, such changes depend on the landlord.

Paper consumption

Everyday use by employees is the main source of paper consumption.

In France, 861 reams of 500 pages were purchased in 2015, or roughly three reams per employee. For several years, ESI Group has taken a number of measures to reduce the consumption of paper, for environmental reasons, but also to control costs. Thus, between 2013 and 2015, the number of reams purchased in France decreased of 15%.

In the Czech Republic, 1,671 reams were used in 2015, just under 3.5 reams per person. Paper consumption declined by 30% versus 2014 while the number of employees has remained stable.

In the United States, employees use an average of two 500-page reams per year, leading to a total of 240 reams purchased in 2015.

Regarding ESI GmbH, 287 reams were purchased in 2015, equaling nearly five reams per employee.

For all data studied (with the exception of Japan), average paper consumption in 2015 was low, about three reams per employee per year.

ESI Group continues to pursue its electronic documents program by implementing IT tools and processes to reduce the use of paper and energy consumption related to printing. Dematerialization has been established for many documents, including travel orders, leave requests and offer reviews. In addition, document management software for archiving and electronic document storage was installed in September 2012.

In 2014, in a process of environmental responsibility, a new environmentally friendly "greener" paper was promoted among all purchasers of French office consumables On a lighter basis weight of 75g versus 80g, this paper helps reducing the environmental impact. In France 90% of purchased paper was recycled.

Water consumption

The software publishing business is not very water-intensive as software publishing activities do not require water for its production. ESI Group's water is solely for sanitary use and drawn from urban networks.
It is difficult to perform an accurate assessment of water consumption. The Group is the lessee of all of its offices, and the water consumption of each site is included in rental charges. As such, it cannot be broken down in detail. However, for the sites for which we have information (the Rungis site in France and ESI Mecas in the Czech Republic), water consumption remained stable in 2015 compared to last year, with average consumption of 5 m3 per employee.

4.3.4.3. Waste management and pollution

Treatment and recycling of waste

By virtue of its activity, ESI Group mainly produces non-hazardous waste, as well as paper, cardboard and plastic. To the best of its knowledge, the Group does not generate hazardous waste.

In 2014, recycling bins were introduced on the Lyon site, the second biggest site in France, as it was done in 2013 on the Rungis site. Thus almost 100% of the French workforce are aware of this action in their daily lives. All five German, American and Czech sites are also equipped with bins for sorting waste. It is planned to extend this measure to all European sites in the future.

As regards other specific waste, notably waste electrical and electronic equipment (WEEE), ESI Group attaches great importance to the environmental management of its IT equipment, in terms of both its use and its recycling.

The Group's IT equipment mainly comprises desktop and laptop computers, servers, copiers and printers. The Company cannibalizes computer hardware (uses parts of one machine to repair another) whenever possible to give a second life to some faulty equipment.

In France and in the United States, end-of-life or obsolete hardware is collected by an authorized provider that manages the processing of electronic waste. On the French Rungis site, the total volume of waste removal was 327 kg in 2015, or 2.3 kg per employee.

Furthermore, on request to our supplier, printer cartridges are collected and recycled via a completely ecological chain.

In the entire scope, except Japan, ink cartridges, batteries, defective light bulbs and fluorescent tubes are recovered by our various suppliers. Containers are available to staff for this purpose in offices.

In Germany, the cleaning and facilities management department, in coordination with the IT departments, is tasked with collecting used electronic equipment. Waste management is then passed on to the local authority of each city.

Noise pollution and other types of pollution linked to activities

The majority of ESI Group's activities are not a source of noise pollution. The only facilities that generate noise liable to affect the vicinity are data centers, the two main data centers being located in France. To protect employees authorized to enter computer rooms, the Company provides anti-noise headphones.

A memo governing working conditions in computer rooms is given to employees with access to such areas in the course of their duties.

Land use

Non applicable. ESI Group is the tenant of all its offices.

4.3.4.4. Emissions of greenhouse gases (GHG) related to business travel

As ESI Group operates both in France and internationally, and as its activity is within the tertiary sector, transport is the main source of its greenhouse gas emissions.

In 2015, emissions resulting from business travel by French employees by train and by plane totaled 375,465 kg of CO_2, representing 1,341 kg per employee. In United-States, these emissions totaled 316,804 kg of CO_2 in 2015, representing 2,804 kg per employee. It should be noted that 40% of the Executive Committee is based in the United-States. In Germany 44,418 kg of CO_2 were produced in 2015 through business travel by German employees by train and by plane, representing 244 kg per employee.

The estimate of annual emissions from company car travel in France is 149,364 kg or 3,931 kg per company car.

Overall, business travel by French employees generated 525 metric tons of CO_2 in 2015.

As for company cars in the Czech Republic, the estimated emissions in 2015 were 96,696 kg of CO2, an average of 3,719 kg per car. Lastly, for ESI GmbH, vehicle emissions were estimated at 168,820 kg of CO2, an average of 5,116 kg per car.

In 2015, 38 people have a company car in France and 26 people in the Czech Republic. In Germany, there were 40 company cars in 2015. The granting rate of company cars was higher in Germany than in France due in particular to the higher proportion of salespeople in Germany and to the German culture which encourages this type of compensation.

Measures to reduce travel were introduced several years ago to reduce the environmental impact of travel. Furthermore, to limit the use of transport, the Group provides employees with web conferencing tools to facilitate cooperation between employees working in different locations without requiring them to travel. Some meeting rooms are also equipped of audio and/or visio conferencing systems in order to facilitate remote meetings. Also, all workstation are equipped with the Skype software allowing audio and video online meetings up to 250 persons.

Moreover, and again with a view to limiting travel, ESI Group has adopted a travel policy. Employees are expected to favor web conferencing over travel for meetings, travel by train rather than by plane for journeys lasting less than three hours, and economy class for air travel (the carbon footprint being much smaller in economy class than in business class).

The car policy is in force in France, applicable to those driving a company car. The auto fleet in France consists largely of vehicles less than three years old.

In 2015, ESI Group began to redraft its “Good driver charter” to incorporate limitations on, among other things, engine power and CO_2 emissions. This policy will be in a first place applicable to French employees.

Measures to reduce discharges into the air, water and soil

ESI Group’s software publishing activity has very limited impact on the air, water and soil compared to other industrial activities requiring heavy production work.

CROSS-REFERENCE TABLE – INDICATORS REQUIRED UNDER ARTICLE R. 225-105-1 OF THE FRENCH COMMERCIAL CODE – ENVIRONMENTAL INFORMATION

2.1 | Overall environmental policy	2.1.1 | Organization of the Company for the consideration of environmental issues or environmental evaluation or certification processes	4.3.4.1.
	2.1.2 | Employee training and information on environmental protection	4.3.4.1.
	2.1.3 | Resources used to prevent environmental risks and pollution	4.3.4.1.
	2.1.4 | Amount of provisions and guarantees for environmental risks	4.3.4.1.
2.2 | Pollution and waste management	2.2.1 | Prevention, reduction or remediation of discharges with serious environmental impact on the air, water or soil	4.3.4.4.
	2.2.2 | Measures taken for the prevention, recycling and disposal of waste	4.3.4.3.
	2.2.3 | Consideration of noise and other forms of pollution specific to an activity	4.3.4.3.
2.3 | Sustainable use of resources	2.3.1 | Water consumption	4.3.4.2.
	2.3.2 | Water supply in relation to local constraints	Not relevant
	2.3.3 | Consumption of raw materials	4.3.4.2.
	2.3.4 | Measures taken to improve efficiency in the use of raw materials	4.3.4.2.
	2.3.5 | Energy consumption	4.3.4.2.
	2.3.6 | Measures taken to improve energy efficiency and use of renewable energy	4.3.4.2.
	2.3.7 | Land use	Not relevant
2.4 | Climate change	2.4.1 | Greenhouse gas emissions	4.3.4.4.
	2.4.2 | Adapting to the impact of climate change	Not relevant

2.5 | Protecting biodiversity	2.5.1 | Measures taken to preserve or enhance biodiversity	Not relevant
Article 2016-138 of February 2016, 11	Fight against wasting food	Not relevant

4.3.5. Serve civil society

- Boost innovations and establish partnerships with the academic and scientific communities;
- Act ethically and responsibly.

Scope adopted: France, Germany and US.

Exemplary corporate conduct and excellent relationships with all stakeholders are, for our Company, the foundation necessary for balanced and durable growth. For this reason ESI Group is especially attentive to the following points:

- Total transparency to all of its stakeholders;
- Complete satisfaction of customers' needs;
- Support regional development by encouraging local recruitment and partnerships;
- Support for innovation through co-creation projects.

The Group considers its main stakeholders to be its employees, customers, suppliers, industry and academic partners, but also its investors and shareholders.

Innovation, which is at the core of ESI Group's business lines, is also a key issue of CSR. It is innovation that continually improves production processes, shortens the design period and the time it takes to develop new, higher performing, more reliable products.

In order to remain at the leading edge of innovation the Group has invested 30% of its Licensing revenues in R&D in 2015.

Innovation makes it possible to resolve the multiple constraints and pressures that weigh on all manufacturers: to develop a safer and better performing product to a shorter timetable, at lower cost and that is more environmentally friendly. The innovative virtual prototyping solutions offered by ESI Group allow us to deal with these ever-present economic challenges.

ESI Group strongly believes that its ability to innovate and research is a key factor in its differentiation and hence its competitiveness, two essential levers for sustainable growth.

Regional, economic and social impact

ESI Group attaches great importance to the relationships it holds with neighboring communities, and works to promote constructive dialogue with and to support the development of local players.

Relations with the digital community

The Group makes a point of creating and maintaining excellent relationships with the various members of the digital community, in industry, academic institutions and voluntary associations. It does so in order to facilitate collaboration and thus to foster industrial innovation. The Company is an active member of the Board of Directors of Tech in France (ex AFDEL - the French association of software publishers), an association that helps promote the software publishing industry and develop digital simulation, and that today represents over 350 members.

Participation in regional competitiveness clusters and technology research institutes (IRT)

ESI Group participates in several competitiveness clusters, principally in France. These clusters provide the proximity needed for collaborative work with the major industrial players and research and development organizations in order to bring highly innovative products to market. Located all over France, they are: Aerospace Valley (Toulouse), ASTech Paris Région (Île-de-France), Pôle Nucléaire Bourgogne (Burgundy), Mov'eo (Normandy and Île-de-France), I-Trans (Nord Pas-de-Calais and Picardy), iD4CAR (Brittany and Pays de la Loire), Systematic (Île-de-France), Minalogic (Grenoble and Rhône-Alpes), Pôle Pégase (Provence Alpes-Côte d'Azur and Pôle ViaMeca (Auvergne-Rhône-Alpes).

Since 2013 ESI Group has had a presence on the campus and the Board of Directors of Ter@tec, Europe's largest intensive computing center, based on the Saclay platform in Ile-de-France, alongside the CEA (the atomic and alternative energy commission), a major player in research, development and innovation. Today, ESI Group is involved in several collaborative projects on that campus, under the leadership of the System X IRT. ESI is also a member of the Executive Committee of the Systematic Paris Region Competitiveness Cluster.

ESI Group is a member of the Board of Directors of AS Tech Paris Region, the competitiveness cluster, of the aerospace industry, whose main objective is to make recommendations to the Paris region concerning the certification of R&D projects within its field.

A prime mover of innovation in its key segments, ESI Group was a member of the iD4CAR Board of Directors in 2014. The aim of this cluster is to increase the competitiveness of the sustainable vehicles and transportation sector in western France, through innovation.

ESI is one of the founding members of Excelcar. Created in 2014, the aim of this association is to revitalize and create jobs around a technical platform for R&D excellence in Brittany, devoted to automotive applications and supported by PSA. This is an initiative supported by the Union des industries et des métiers la métallurgie of Ille-et-Vilaine and Morbihan (UIMM 35-56), for the purpose of stimulating the automotive industry in Brittany around PSA Rennes, which has announced its strategic plan for the coming years.

ESI participates in the 3DMat innovation platform specifically for developing a digital simulation and virtual prototyping channel for new multi-material and composite architectures, with priority given to the automotive industry.

Again in the transportation sector, ESI is an active member of the Board of IRT Railenium, whose main mission is to lengthen the life cycle of the railway infrastructure and capitalize on the rapid international development of its new products. Involving a broad consortium of manufacturers and research organizations, in 2011 ESI Group was selected under the *Programme Investissements d'Avenir (Grand Emprunt)*. ESI is also a founding member of the CADEMCE SAS railway testing platform

ESI also assists the mechanical engineering field and promotes its activities. The Company is a member of the Board of Directors of the Association Française de Mécanique (AFM), a body for information, dialogue and discussion for the mechanical engineering community (industry professionals and technology transfer organizations, teachers and researchers) and representing French mechanical engineering to its foreign counterparts.

In the field of aeronautics, ESI actively participates in initiatives from the Council for Civil Aeronautics Research (CORAC) undertaken as part of the Plan d'Investissement d'Avenir. In 2014, ESI was invited by the seven top French aeronautics companies, which are members of GIFAS, to join the Usine Aéronautique du Futur platform as an associate member. This major initiative was launched to transform production facilities in the fast-moving aeronautics industry, which must deal with an unprecedented increase in requirements. As a result, ESI participated in the development of a plan and is already contributing to four major projects that aim to spread the use of virtual prototyping and increase development of manufacturing processes for the future, such as additive manufacturing or robotic manufacturing of composite materials.

ESI also participates in other CORAC plans, like those for the DEPACE platforms for the Composite Aircraft of the Future, the SEFA platform to develop the Cockpit of the Future, and the plans for the Helicopter of the Future, in order to strengthen French excellence in these fields. In this way, ESI helps to make commercial aircraft cockpits safer and more comfortable, and thus keeping cost margins under control for manufacturing important parts in helicopter transmissions boxes.

Since 2013, a number or initiatives have emerged to design the Usine de Demain and to use it as a competitiveness and attractiveness leverage for the region. ESI Group participates in the Nouvelle France Industrielle national initiative, and is, on this basis, an active member of the Alliance pour l'Industrie du Futur. ESI Group is thus an operational representative of the French Association of Software Publishers (AFDEL), recently renamed Tech'IN France. ESI Group also attends at the Alliance's Board of Directors and its steering committee headed by the French Minister of the Economy and Digital Technology. In so doing, ESI Group is strengthening its position in France as a leading actor in digital transformation and is bringing its vision for virtual engineering as well as its economic and societal values.

Regionally, ESI Group has worked with the Aquitaine-Limousin-Poitou-Charentes (ALPC) Regional Council to create the "it3D Aquitaine" simulation community. This group brings together a number of industrial, academic and institutionnal players from the region. It has led to the creation of the first interdisciplinary digital, technical, and scientific community dedicated to interactive simulation and virtual experience to support industries and future usages.

Relations with academia

The Group has always worked towards establishing favored, long-term relationships with the worlds of secondary and higher education, all over the world. To encourage young people to join the industry, train the best employees of tomorrow in its software and foster innovation in education, ESI Group works with a great many universities, technological institutes and elite specialized colleges in the various countries where the Group is located. These partnerships also enhance the reputation of ESI Group by making known its lines of business and its values, so as to facilitate the hiring of recent graduates.

In order to support its growth and meet its hiring goals, ESI Group enjoys close, trusting relationships with many elite schools and universities, in France such as UTC in Compiegne, Ecole centrale in Paris, INSA Lyon, ENS des Mines in Saint-Étienne, ENSIAME in Valenciennes, the technology university of Troyes, Ecole Polytechnique…Furthermore in 2013, ESI Group and Centrale Nantes have created a 6-year joint research program on the topics of model reduction, advanced welding simulation, and thermoplastic welding. In Germany, with the University of Stuttgart and the Institute of Aircraft Design (IFB) which is associated with it and the Technological University of Dresden; in the United States with MIT (Massachusetts Institute of Technology), Virginia Tech and the Universities of Iowa, Michigan and Alabama.

ESI Group places a high priority on hiring employees locally in order to boost regional economic development. In 2014 ESI Group had facilities in 18 countries and covered over 40 countries through its distribution network.

CROSS-REFERENCE TABLE – INDICATORS REQUIRED UNDER ARTICLE R. 225-105-1 OF THE FRENCH COMMERCIAL CODE – SOCIETAL INFORMATION

3.1 | Territorial, economic and social impact of the Company's activity	3.1.1 | In terms of employment and regional development	4.3.5.
	3.1.2 | On neighboring or local communities	4.3.5.

3.2 | Relationships with persons or organizations with an interest in the activity of the Company, including NGOs, educational institutions and local communities	3.2.1 | Terms of dialog with such persons or organizations	4.3.5.

4.3.6. Report of the inspecting organization

This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Year ended January 31, 2016

To the Shareholders,

Following the request made to us by ESI Group SA and in our capacity as an independent third-party organization accredited by COFRAC under no. 3-1081 (scope available at www.cofrac.fr), we submit to you our report on the consolidated corporate social responsibility information presented in the management report written with regard to the period ending January 31, 2016 pursuant to Article L. 225-102-1 of the French Commercial Code.

Company responsibility

It is the duty of the Board of Directors to prepare a management report including the consolidated corporate social responsibility information referred to in Article R. 225-105-1 of the French Commercial Code (hereinafter the "Information") and prepared in accordance with the guidelines (the "Guidelines") used by the Company and available on request at the Group's registered office, a summary of which appears in the methodological note available on the Group's website.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession, and the provisions of Article L. 822-11 of the French Commercial Code. Furthermore, we have implemented a quality control system including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Third party assurance report

It is our role, based on our work:

- To attest whether the required CSR Information is present in the Management Report or, in the case of its omission, that an appropriate explanation has been provided in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code and Decree No. 2012-557 of April 24, 2012 (Attestation of presence of CSR information);
- To express a limited assurance on whether the CSR information is presented, in all material aspects, in accordance with the Reporting Criteria.

Attestation of presence of CSR information

We conducted the following procedures in accordance with professional standards applicable in France:

- we compared the Information presented in the Management Report with the list as provided for in Article R. 225 -105-1 of the French Commercial Code;
- we verified that the Information covers the consolidated perimeter, namely the Company and its subsidiaries as aligned with the meaning of Article L. 233-1 and the entities which it controls as aligned with the meaning of Article L. 233 -3 of the French Commercial Code;
- in the absence of certain consolidated information, we have verified that explanations were provided in accordance with the provisions of Decree No. 2012-557 of April 24, 2012.

Based on this work, and given limitations mentioned above, we confirm the presence in the Management Report of the required CSR information.

Opinion stating reasons on the accuracy and fairness of the CSR information

Nature and scope of our work

Our work was carried out by a team of two people between April 26, 2016 and May 11, 2016, for a period of about six person-days.

We conducted the work in accordance with the standards of professional practice applicable in France, with ISAE 3000 and with the decree of May 13, 2013 stating how the third-party independent organization is to carry out the assignment.

We conducted three interviews with the persons responsible for preparing the CSR information in the departments in charge of the process of gathering the information and, when necessary, those responsible for the internal control and risk management procedures, so as to:

- assess the appropriateness of the Guidelines in terms of their relevance, completeness, neutrality, comprehensibility and reliability, taking into consideration best practices, if any, in the sector;
- verify the implementation within the Group of a process for collecting, compiling, processing and checking the CSR Information with regard to its completeness and consistency. We reviewed the internal control and risk management procedures relating to the preparation of the CSR Information.

We identified consolidated information to test and determined the nature and extent of tests, taking into account the importance of the information in question in relation to the social, societal and environmental consequences of the activity and the characteristics of the Group, its CSR objectives and best practices in its sector.

For the CSR Information we judged to be most important at the level of the consolidating entity:

- we consulted the documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions, etc.);
- we carried out analytical procedures on the quantitative information and, based on sampling, verified the calculations and the consolidation of the data;
- we carried out detailed tests based on sampling(1) that consisted of verifying the calculations made and comparing them with the data in the supporting documents, and we verified their consistency with the other information contained in the management report.

For the other consolidated CSR information, we judged its consistency in light of our knowledge of the Company.

Finally, we judged the validity of any explanations given as to the total or partial absence of certain information.

It is our belief that the sampling methods and sample sizes we used in exercising our professional judgment allow us to draw a conclusion of moderate assurance. A higher level of assurance would have required a more extensive review.

Our work covered on average 70% of the consolidated value of the numerical indicators in the employment portion and 70% of the consolidated value of the numerical indicators in the environmental portion.

Due to the use of sampling techniques as well as to the limitations inherent in the operation of any information and internal control system, the risk of not detecting a material irregularity in the CSR information cannot be totally ruled out.

Comments on the Information

- ESI Group elected, as explained in the “Scope” paragraph, to collect CSR information for the year ended January 31, 2016 on a narrow scope.

Conclusion

Based on our work; we have not identified any significant misstatement that causes us to believe that CSR information, taken together, have not been fairly presented, in accordance with the Reporting criteria.

Lyon, May 12, 2016

FINEXFI

Isabelle Lhoste

Partner

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(1) Companies selected for the tests: Rungis and Czech Republic sites for the environmental part and France sites for the social part.

4.4. Compensation

Table summarizing the stock option plans available to employees and corporate officers

Stock options plan for the subscription and purchase of new shares	Options available to be granted at January 31,2016	As of % of share capital	Options remaining at January 31, 2016	Exercise price *(in euros)*	As of % of share capital	Options exercised at January 31, 2016	as of % of share capital
No. 7 (AGM of June 30, 2005)	0	0%	0	8.86	0.00%	3,500	0.06%
No. 9 (AGM of June 29, 2006)	0	0%	31,920	8.86	0.54%	3,150	0.05%
No. 10 (AGM of June 26, 2012)	0	0%	128,625	25.95	2.16%	0	
No. 15 (AGM of July 23, 2013)	274,538	4.61%	20,000	21.66	0.34%	0	
No. 17 (AGM of July 24, 2014)	172,650	2.90%	7,350	27.17	0.12%	0	
TOTAL	**447,188**	**7.51%**	**187,895**		**3.16%**	**6,650**	**0.11%**

The “options available to be granted” at January 31, 2016 represent the difference between the total amount granted by the Annual General Meeting under its authorization to allocate options and the number of options actually allocated to beneficiaries.

The options forfeited or cancelled following an employee’s departure were removed from “options granted and not exercised” at January 31, 2016.

Free share awards to executive corporate officers and non-executive corporate officers

The table below lists the free share award plans for executive and non-executive corporate officers:

Free share award plans	Free shares available to be awarded as at January 31 2016	As a % of share capital	Free shares awarded as at January 31, 2016	As a % of share capital
Authorization of the AGM of June 26, 2012	0	0%	19,185	0.32%
Authorization of the AGM of July 23, 2013	60,000	0.33%	0	0
TOTAL	**60,000**	**0.33%**	**19,185**	**0.32%**

The “free shares eligible to be awarded” at January 31, 2016 represent the difference between the total amount granted by the Annual General Meeting under its authorization to allocate shares and the number of shares actually allocated to beneficiaries.

The forfeited free shares were removed from “Free shares awarded as at January 31, 2016. Note that in December 2012 management granted five free shares to 211 employees of its French subsidiaries, representing a total of 1,055 free shares, and 20,700 shares, including forfeited shares, to persons who had made outstanding contributions to the success of the Company. As of this date, the number of awarded and not forfeited shares is 19,185.

Stock options granted to/exercised by corporate officers (list of names)

Stock options exercised by each corporate officers during the fiscal year				
Name of corporate officer	No. and date of plan	Number of options exercised in the fiscal year	Number of options allocated in the fiscal year	Exercise price
Christopher St.John	No. 7 (June 30,2005)	3,500	None	8.86
TOTAL		**3,500**		

Share subscription options granted to/exercised by employees (not including corporate officers)

See Section 3.2.4.7., “Stock options granted to the top ten employee grantees (not including corporate officers)”.

Grants of free shares employees who are not corporate officers

No free shares were granted to employees who are not corporate officers in fiscal year 2015.

Compensation of the Chairman and Chief Executive Officer and the Chief Operating Officers

See Section 3.2.4.2., “Chairman's, Chief Executive Officer and the Chief Operating Officers’ Compensation”.

4.5. Agreements

We also ask the Shareholders to approve the agreements referred to in Article L. 225-38 of the French Commercial Code, duly authorized by your Board of Directors during the past fiscal year or signed during a previous fiscal year and remaining in effect during the fiscal year in question.

4.5.1. Agreements signed during the fiscal year

Agreements falling under Article L.225-38 of the French Commercial Code

Debt forgiveness agreement with ESI North America, Inc.

On July 9, 2015, the Company wrote off debts worth USD 4,000,000 in its fully-owned subsidiary, United States-based ESI North America, Inc.

This agreement was reasoned by commercial reasons. It was authorized by the Board of Directors at its meeting on July 3, 2015 in compliance with Article L. 225-38 of the French Commercial Code.

Buyback of shares from a board member

On July 3, 2015, the Company purchased 8,300 shares held by Mr Jacques Dubois, Director, under its share buyback program.

These shares were bought back at the average market price over the 20 trading sessions preceding the transaction after a deduction of 5%, the price corresponding to 22.99 euros per share or 190,817 euros for 8,300 shares.

The reason for this purchase was the Company’s intention to maintain the shares and subsequently use them for payment or exchange within the context of possible external growth operations, in accordance with article L. 225-209 of the French Commercial Code.

Consultancy contract with a board member

On April 15, 2015, the Company signed a consultancy contract with Mrs. Cristel de Rouvray, Director. The agreement was made in accordance with Article L. 225-38 of the French Commercial Code, having received prior authorization from the Board of Directors at their meeting on April 14, 2015.

The purpose of this contract is to grant to Mrs. Cristel de Rouvray specific missions relating to human resources, consulting, and strategic management, with the time spent on these subjects ranging from 40 to 50 hours per month.

The annual cost of this contract is estimated at USD 60,000 . The initial duration of the contract is from April 15, 2015 to January 1, 2016, automatically renewable for a period of one year.

Agreements falling under Article L.225-39 of the French Commercial Code

Not applicable.

4.5.2. Agreements previously signed and remained in effect during the past fiscal year

In accordance with the provisions of Article L. 225-39 of the French Commercial Code, we must disclose any agreements concerning the day-to-day business of the Company and concluded under normal conditions. These agreements are as follows:

Type of agreement	Nature	Company(ies) involved	
Group services fees	Income	Engineering System International	ESI Group Hispania s.l.
		ENGINEERING SYSTEM INTERNATIONAL GMBH	Mecas ESI s.r.o.
		ESI Italia s.r.l.	Calcom ESI SA
		Hankook ESI Co., Ltd.	ESI UK LIMITED

		Nihon ESI K.K.	ESI US R&D, Inc.
		ESI North America, Inc.	Pacific Mindware Engineering Private Limited
Royalties	Income	Engineering System International	ESI-ATE HOLDINGS LIMITED
		ENGINEERING SYSTEM INTERNATIONAL GMBH	ESI Italia s.r.l.
		Mecas ESI s.r.o.	ESI Group Hispania s.l.
		Nihon ESI K.K.	ESI UK LIMITED
		ESI North America, Inc.	ESI Software (India) Private Limited
		Hankook ESI Co., Ltd.	
Cash management agreements	Income/Expense	ESI Services TUNISIE	
Loan agreements	Income	ESI North America, Inc.	ENGINEERING SYSTEM INTERNATIONAL GMBH
		Engineering System International	Nihon ESI K.K.
		ESI-ATE HOLDINGS LIMITED	Hankook ESI Co., Ltd.
		Mecas ESI s.r.o.	ESI Group Hispania s.l.
		ESI Software Germany GmbH	CyDesign Labs, Inc.

Other similar arrangements have been entered into during the past year, but due to their purpose and/or financial implications these other arrangements are not considered material for any of the parties and do not, therefore, need to be mentioned.

The statutory auditors have been informed of these regulated agreements with related parties.

The statutory auditors confirm that they have completed their assignment in their special report.

4.6. Disputes

The Company is not involved in any dispute or litigation likely to have a material impact on the financial statements or the assets of the Group or that imply specific mention due to the amounts.

4.7. Other items submitted to the Annual General Meeting

Fifth and sixth resolutions: Reappointment of Mr Vincent Chaillou as Director and appointment of a new Director

Noting that the term of office of Mr Vincent Chaillou expires at the end of the General Meeting, it is proposed to the General Meeting, under Resolution No.5, to renew the tenure of Mr Chaillou as Director for a term of four years. This term should end at the end of the General Meeting convened to approve the financial statements for the fiscal year ending January 31, 2020.

Furthermore, under Resolution No. 6 it is proposed to the General Meeting to appoint as a new Director Mr Yves de Balmann for a term of four years. This term should end at the end of the General Meeting convened to approve the financial statements for the year ending January 31, 2020.

It is noted that this appointment of a new Director will allow to complete the Board following the death of Mr Jacques Dubois and to strengthen Board's expertise in terms of finances,mergers, funding and investment.

Seventh resolution: Authorization to the Board of Directors for the Company to buy back its own shares

It is proposed to the General Meeting, deliberating in accordance with the quorum and majority conditions requirements for Ordinary General Meetings, in accordance with Article L. 225-209 and subsequent of the French Commercial Code:

1. To terminate the authorization granted by the seventh resolution of the Ordinary and Extraordinary General Meeting of July 22, 2015, which authorized the Board to trade in its own shares;
2. To authorize the Board of Directors to purchase the Company's shares, not to exceed 10% of its capital, for a period of 18 months beginning on July 21, 2016, in order to:
   a. Stimulate the secondary market or the liquidity of ESI Group shares through a liquidity contract signed with an investment service provider and compliant with the AMAFI's code of ethics dated September 23, 2008 and approved by the French Financial Markets Authority (AMF);
   b. Fulfill its share issue obligations, in accordance with the terms and conditions set forth by law, undertaken as part of the

following:

- Plans granting stock options for the purchase of existing shares by the Group's employees or corporateofficers;
- Employee profit-sharing plans under which these shares would be granted to employees and/or corporate officers;
- Free share grants to the Group's employees and corporate officers;
- Shares provided upon exercise of the rights attached to securities giving access to shares by any means, whether immediately or in the future, under the conditions set forth by the AMF and at any time deemed appropriate by the Board of Directors;

c. Retain shares to subsequently use them in exchange or as payment for future business acquisitions;

d. Cancel shares by reduction in share capital.

3. To decide that the purchase price per share may not exceed EUR 40.

Shares may be purchased or retained at the Board of Directors' discretion by any means by trading on the market or off the market, on an over-the-counter market, on one or more occasions. All shares purchased under the authorized share buyback program may be acquired in the form of blocks of shares. Such transactions may be carried out at any time, including during public offering periods, in accordance with the regulations in force.

The Company shall not, at any time, hold, either directly or via an intermediary, more than 10% of the total shares making up its legal capital.

The Company will not be allowed to pay out more than EUR 6,500,000 under the share buyback program.

The Board of Directors will inform shareholders in its management report of acquisitions and sales conducted in accordance with this authorization.

The General Meeting confers upon the Board of Directors all powers for:

- Publishing, prior to usage, a detailed communiqué on this share-buying plan authorized by the General Meeting on the website of the *Autorité des Marchés Financiers*;
- Placing any stock market orders and making any agreements, particularly for maintaining the register of purchases and sales;
- Making any declarations to securities market authorities and any other formalities and, in general, doing all that is necessary.

Eighth resolution: Determination of the compensation paid to members of the Board of Directors (Directors' fees)

The Board of Directors invites the General Meeting to set the compensation paid to members of the Board of Directors in the form of Directors' fees at EUR 160,000 for the 2016 fiscal year.

The Board will freely distribute this amount among its members.

5 FINANCIAL STATEMENTS

5.1. Consolidated financial statements

5.1.1. Consolidated income statement

(in thousands of euros)	*Note*	January 31, 2016	January 31, 2015
Licenses and maintenance (1)		97,038	84,521
Consulting		26,524	24,284
Other (1)		1,155	2,213
TOTAL REVENUES	**4.1**	**124,718**	**111,017**
Cost of revenues		(34,305)	(31,901)
Research and development costs	6.1.2	(22,772)	(19,969)
Selling and marketing expenses		(38,611)	(35,030)
General and administrative costs		(17,223)	(15,161)
CURRENT OPERATING RESULT		**11,807**	**8,956**
Other operating income and expenses	3.2.2	(2,454)	(607)
Total operating expenses	*4.4*	*(115,365)*	*(102,668)*
INCOME FROM OPERATIONS		**9,353**	**8,350**
INCOME (LOSS) FROM FINANCIAL ACTIVITIES	**7.2**	**(950)**	**741**
Share of profit of associates		123	100
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS		8,527	9,191
Provision for income tax	8.1	(3,157)	(3,595)
NET INCOME BEFORE MINORITY INTERESTS		**5,370**	**5,596**
Minority interests		40	101
NET INCOME		**5,330**	**5,496**
Earnings per share (in euros)	9.3	0.96	0.99
Diluted earnings per share (in euros)	9.3	0.96	0.99

(1) 2014 data have been reclassified for a better comparability with 2015 – see note 4.1

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

Statement of comprehensive income

(In thousands of euros)	January 31, 2016	January 31, 2015
Net income before minority interest	5,370	5,596
OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME		
Change in the fair value of hedging instruments	23	4
Currency translation adjustment	61	1,534
OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME		
Actuarial gains and losses on pension obligations	43	(1,100)
Income and expenses recorded directly in equity	127	438
Comprehensive income	5,497	6,035

Attributable to Group equity holders	5,454	5,905
Attributable to minority interests	44	130

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

5.1.2. Balance sheet

(In thousands of euros)	Note	January 31, 2016	January 31, 2015
ASSETS			
NON-CURRENT ASSETS		112,966	84,801
Goodwill	3.2	38,508	23,792
Intangible assets	6.1	54,623	45,476
Non-current assets	6.2	4,266	3,542
Investment in associates		859	752
Deferred tax assets	8.2	10,548	9,028
Other non-current assets	10.1.1	4,072	1,994
Cash-flow hedge instruments	7.1.4	90	216
CURRENT ASSETS		94,049	86,585
Short term receivables	4.2	67,676	61,626
Other current receivables	10.1.2	12,692	10,129
Prepaid expenses	10.1.3	3,355	2,890
Cash and cash equivalents	7.1.3	10,327	11,940
TOTAL ASSETS		**207,015**	**171,387**
EQUITY AND LIABILITIES			
CONSOLIDATED EQUITY		91,727	86,853
Equity attributable to parent company owners	**9.1**	**90,842**	**86,396**
Share capital		17,865	17,845
Additional paid in capital		24,938	24,899
Reserves and retained earnings		40,882	36,382
Net income (loss)		5,330	5,496
Currency translation difference		1,827	1,773
Minority interests		**884**	**457**
NON-CURRENT LIABILITIES		44,040	18,458
Long-term share of financial debt	7.1.2	32,597	9,916
Provision for employee benefits	5.3	6,820	6,849
Deferred tax liabilities	8.2	3,281	797
Cash-flow hedge instruments	7.1.4	21	684
Other long-term debt		1,321	212
CURRENT LIABILITIES		71,248	66,076
Short-term share of financial debt	7.1.2	13,967	12,684

Trade payables		8,073	7,936
Accrued compensation and income tax expense, and other short-term liabilities	10.2.1	26,593	24,170
Provisions for contingencies, risks and disputes	10.2.2	1,551	2,331
Deferred income	4.3	21,064	18,956
TOTAL EQUITY AND LIABILITIES		**207,015**	**171,387**

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

5.1.3. Consolidated statement of changes in equity

(In thousands of euros except for the number of shares)	Number of shares	Share capital	Additional paid in capital	Net income, reserves and retained earnings	Currency translation difference	Equity attributable to parent company owners	Equity attributable to minority interests	Total Equity
AS AT JANUARY 31, 2014	5,935,632	17,807	24,824	37,284	269	80,183	405	80,587
Hedging instruments fair value				4		4		4
Currency translation difference					1,500	1,500	34	1,534
Actuarial gains and losses on pension obligations				(1,095)		(1 095)	(5)	(1,100)
Recognized income and expense directly in equity				**(1,091)**	**1,500**	**409**	**29**	**438**
Net income				5,496		5,496	101	5,596
COMPREHENSIVE INCOME				4,405	1,500	5,905	130	6,035
Capital increase	12,790	38	75			113		113
Treasury stock				(189)		(189)		(189)
Share-based payments				219		219		219
Transactions with non-controlling interests				160	4	164	(78)	87
AS AT JANUARY 31, 2015	5,948,422	17,845	24,899	41,879	1,773	86,396	457	86,853
Hedging instruments fair value				23		23		23
Currency translation difference					54	54	7	61
Actuarial gains and losses on pension obligations				46		46	(3)	43
Recognized income and expense directly in equity				69	54	123	4	127
Net income				5,330		5,330	40	5,370
COMPREHENSIVE INCOME				5,399	54	5,454	44	5,497
Capital increase	6,650	20	39			59		59
Treasury stock				(229)		(229)		(229)
Share-based payments				286		286		286
Transactions with non-controlling interests				(1,123)		(1,123)	384	(740)
AS AT JANUARY 31, 2016	5,955,072	17,865	24,938	46,212	1,827	90,842	884	91,727

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

5.1.4. Consolidated statement of cash flows

(In thousands of euros)	January 31, 2016	January 31, 2015
Net income before minority interests	**5,370**	**5,596**
Share of profit of associates	(123)	(100)
Depreciation and provisions	3,860	3,054
Net impact of capitalization of research & development costs	(3,456)	(1,198)
Income taxes (current and deferred) (1)	3,157	3,595
Income taxes paid(1)	(2,817)	(1,870)
Unrealized financial gains and losses (1)	1,190	(1,294)
Share-based payment transactions	286	219
Loss (gain) on sales of assets	14	(78)
CASH FLOWS(1)	7,481	7,925
Trade and other receivables (1)	(7,573)	(5,018)
Trade payables	211	976
Other receivables and other liabilities (1)	(445)	892
Changes in working capital(1)	**(7,807)**	**(3,150)**
NET CASH FROM OPERATING ACTIVITIES	(326)	4,775
Purchase of intangible assets	(2,590)	(444)
Purchase of tangible assets	(2,637)	(999)
Proceeds from the sale of assets	24	121
Acquisition of subsidiaries, net of cash acquired	(17,552)	(999)
Other investment operations	(2,112)	(99)
NET CASH USED FOR INVESTING ACTIVITIES	(24,866)	(2,419)
Proceeds from loans	47,916	9,787
Repayment of borrowings	(24,222)	(11,889)
Proceeds from issue of shares	59	113
Sale (purchase) of treasury stock	(229)	(189)
NET CASH USED IN FINANCING ACTIVITIES	23,523	(2,177)
Effect of exchange rate changes on cash and cash equivalents	55	1,047
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,613)**	**1,226**
Beginning of year	11,940	10,714
End of year	10,327	11,940
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1,613)**	**1,226**

(1) 2014 data have been reclassified for a better comparability with 2015 – EUR 56 thousand from Changes in working capital to Cash flows

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

5.1.5. Notes to the consolidated financial statements

Table of contents to the notes to the consolidated financial statements

Note 1. Accounting principles

Note 1.1. General information

ESI Group SA is a French limited company (société anonyme), registered in France and governed by French law.

ESI Group SA is headquartered at 100-102, avenue de Suffren, Paris (75015), France.

ESI Group SA is the parent company of some 30 subsidiaries operating throughout the world (see part 2.2.2. of the Registration document on Legal organization chart), together comprising ESI Group.

ESI Group is a pioneer and world-leading provider in Virtual Prototyping that takes into account the physics of materials. ESI boasts a unique know-how in Virtual Product Engineering, based on an integrated suite of coherent, industry-oriented applications. Addressing manufacturing industries, Virtual Product Engineering aims to replace physical prototypes by realistically simulating a product's behavior during testing, to fine-tune fabrication and assembly processes in accordance with desired product performance, and to evaluate the impact on product use under normal or accidental conditions. ESI's solutions fit into a single collaborative and open environment for End-to-End Virtual Prototyping. These solutions are delivered using the latest technologies, including immersive Virtual Reality, to bring products to life in 3D; helping customers make the right decisions throughout product development.

The Group's fiscal year begins on February 1 and ends on January 31 of the following year; therefore the fiscal year 2015 ended on January 31, 2016.

The 2015 consolidated financial statements have been validated by the Board of Directors on April 8, 2016. They will be presented to the Shareholders' Annual General Meeting for approval on July 21, 2016.

Figures in the financial statements are presented in thousands of euros.

Note 1.2. Accounting standards applied

The consolidated financial statements at January 31, 2016 were prepared in accordance with the IFRS standards, as approved by the European Union on January 31, 2016. These standards are available on the European Union's website.

Note 1.3. New IFRS standards and interpretations

New standards, amendments and interpretations effective in the European Union and mandatory for annual periods beginning on or after February 1, 2015

The adoption of the following texts had no significant impact on the information presented by the Group:

- IFRIC 21 "Levies";
- Amendments to IAS 19 – "Defined Benefit Plans: Employee Contributions";
- Annual improvements - 2010-2012 cycle;
- Annual improvements - 2011-2013 cycle.

Application of new standards prior to their mandatory effective date

The Group did not make early application of standards and interpretations not mandatory as of February 1, 2015, in particular the following:

- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" published by the IASB in May 2014 and applicable to periods beginning from January 1, 2016 forward;
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" published by the IASB in May 2014 and applicable to periods beginning from January 1, 2016 forward;

- Annual improvements - 2012-2014 cycle, published by the IASB in September 2014 and applicable to periods beginning from January 1, 2016 forward;
- Amendments to IAS 1 "Disclosure Initiative" published by the IASB in December 2014 and applicable to periods beginning from January 1, 2016 forward.

The Group does not anticipate that the adoption of these standards will have any material impacts on its consolidated financial statements.

In addition, the Group's consolidated financial statements do not take into account any new standards, amendments and interpretations not yet approved by the European Union as of January 31, 2016, in particular:

- IFRS 15 "Revenue from Contracts with Customers" applicable to periods beginning from January 1, 2018 forward;
- IFRS 9 "Financial instruments" applicable to periods beginning from January 1, 2018 forward;
- IFRS 16 "Leases" applicable to periods beginning from January 1, 2019 forward.

The impact of these new standards on consolidated financial statements is currently being analyzed.

Note 1.4. Use of estimates and assumptions

The 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 liability, 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 granted to employees, business combinations, revenue recognition, depreciation of non-current assets, valuation of deferred tax assets, valuation of hedging instruments, capitalized R&D costs, provisions for doubtful receivables, taxes, risks and disputes, as well as provisions for employee benefits.

Note 2. Significant events of the year

Change in scope of consolidation – See details in notes 3.1 and 3.3

- Acquisition on March 27, 2015 of a 80% stake in French company CIVITEC
- Acquisition on January 5, 2016 of a 96% stake in German company ITI GmbH

Acquisition of technological bricks (intangible assets) – See details in note 6.1

- Acquisition of Ciespace and Presto activities in the United States and of Picviz Labs in France, respectively on April 10, 2015, May 6, 2015 and March 3, 2015.

Group financing – See details in note 7.1.2

- Early reimbursement of the previous syndicated loan and signing on November 5, 2015 of a new syndicated loan of EUR 49 million with a 7 years maturity (2022).

Note 3. Scope of consolidation

Note 3.1. Accounting policies related to the scope of consolidation

Consolidation method

The annual financial statements of the companies controlled by ESI Group are fully consolidated from the date when ESI Group takes control over them until the date when control is transferred outside the Group. Associates, defined as companies over which the Group exercises significant influence, are accounted for by the equity method. The Group does not own stakes in any entity over which it would exercise joint control.

The Group's scope of consolidation as of January 31, 2016 is detailed in note 3.4.

Financial statements' closing date

Subsidiaries which annual closing date differs from January 31 prepare interim financial statements as of January 31 for consolidation purposes.

Internal transactions

All transactions between consolidated companies, including intra-Group gains, are eliminated in the consolidated financial statements.

Conversion of the financial statements of non-French subsidiaries

The Group's foreign subsidiaries generally use local currency as their functional currency. The euro is ESI Group's functional and presentation currency.

Financial statement items measured in the functional currency are translated into euros as follows:

– Balance sheet items are translated at the closing rate;
– Income statement items and cash flows are translated at the average exchange rate for the period.

The difference between equity translated at the closing rate and the historical rate, and that resulting from the translation of net income at the average rate for the period, are recorded in equity on a separate line in the Other Comprehensive Income (OCI), under “Currency translation difference”.

Transactions and balances in foreign currencies

At the closing date, monetary assets and liabilities denominated in a foreign currency are translated to the functional currency at the year-end exchange rate. Foreign exchange gains and losses on transactions in foreign currencies are recorded as such, with the exception of those arising from transactions that may be characterized as long-term investments, which are recorded in equity on a separate line in the Other Comprehensive Income (OCI), under “Currency translation difference”.

Business combinations

Business combinations are recognized by the acquisition method:

– The identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date;
– Any non-controlling interest in the acquiree (i.e. minority interest) is measured either at fair value (“full goodwill method”) or at the non-controlling interest’s proportion of the acquiree’s identifiable net asset (“partial goodwill method”). This option applies on an individual transaction basis.

Costs directly related to the acquisition are recorded as expenses when incurred, on the income statement line “Other operating income and expenses”.

Any contingent consideration related to business combinations is recognized at its fair value on the acquisition date. After the acquisition date, contingent consideration is measured at fair value at the end of each subsequent reporting period. Any changes in the fair value of contingent consideration arising more than one year after the acquisition date are recognized in income. Changes in fair value within one year of the acquisition date are recognized in income if they clearly result from events after the acquisition date. Other changes are offset against goodwill.

Where put options have been granted to minority shareholders of subsidiaries, the amount recognized in liabilities is measured at the present value of the option exercise price and recorded in “Other long-term debt” or “Other short-term liabilities” according to its maturity. The balance is allocated either to Goodwill (“full goodwill method”) or to Equity (“partial goodwill method”). Discounting adjustments are recorded into financial result. Future changes in the fair value are recognized as Equity.

At the date of acquisition, goodwill represents the difference between:

– The fair value of the consideration transferred, plus the total minority interests in the acquire, plus, for step acquisitions, the fair value of the stake previously held, revaluated in the income statement; and
– The net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities.

The Group has 12 months from the acquisition date to determine the fair value of the assets and liabilities and declare the amount of goodwill acquired. If the acquisition price is lower than the fair value of identified assets, liabilities and contingent liabilities, the difference is immediately recorded in the income statement.

In accordance with IFRS standards, goodwill is not amortized but is instead subject to an impairment test. This test is performed once an impairment indicator is identified and at least once a year. Goodwill is allocated to cash-generating units (“CGU”) for impairment test purpose.

For intangible assets acquired as part of a business combination, the amortization expense as well as the costs directly attributable to acquisitions are presented on a separate line of the income statement entitled "Other operating income and expenses".

The "Current operating result" presented in the income statement is equal to "Income from operations" less "Other operating income and expenses".

Impairment test of goodwill and other intangible assets with an indefinite useful life

ESI Group uses a single CGU for the entire Group. The Group's strategy is to focus on growth through innovation stemming from its R&D efforts and the integration of acquired technologies (source codes, algorithms, physical laws, etc.).

As ESI Group has grown, it has been found that certain technologies acquired to resolve a specific issue could be used to re-solve other issues as well. The integration of this portfolio of technologies with the Group's software makes it potentially possible to use all of these technologies in all of the Group's projects depending on the solutions required. The consequence of this ever-increasing integration is that it is more and more difficult to allocate revenues to a specific technology and to thus create a CGU for each technology or software program.

In addition, the revenues earned by a sales subsidiary are dependent not only on its own commercial performance but also, even more so, on the software published. The large multinational corporations with which ESI Group works regard the Group as a partner. As both publisher and technological partner, ESI helps implement standardized methods within their organizations. It should be noted that the Group's top twenty customers represent more than 40% of its order bookings for several years.

As regard to the companies and assets acquired in 2015, integration follows the same principles. Research and development teams work to integrate the software solutions within the line of existing ESI Group products.

The impairment test is based on discounted value of forecasted future cash flows according to business projections, technology penetration and the competitive situation.

Future cash flows are estimated as follows:

- The last fiscal year for the reference year (Y);
- Annual budget for the year Y+1;
- Cash flows for the years Y+2 to Y+5 are estimated by applying to Y+1 data growth rates that are consistent, in particular, with past experience.

The discount rate applied as of January 31, 2016, of 11%, is the Group’s weighted average cost of capital (WACC) adjusted with a risk premium. The discount rate as of January 31, 2015 was 10.3%.

The present value of the CGU is determined by adding:

- The present value of forecasted future cash flows over the explicit period of 5 years, as described above;
- The terminal value, calculated by capitalizing to perpetuity the last cash-flow of the explicit period. The perpetuity growth rate applied is 1%.

This present value of the CGU either confirms the fair value of the assets of the CGU, or is the basis for calculation of a potential depreciation.

The impairment test performed on the CGU as of January 31, 2016 did not lead to identify any loss for these assets. Sensitivity tests to reasonably possible changes in key assumptions were conducted, based on a 1% increase in the discount rate and a 1% decrease in the long-term gross rate. No impairment has been identified.

Note 3.2. Impact of the change in the scope of consolidation on goodwill and non-recurring result

3.2.1. Goodwill

(In thousands of euros)	January 31, 2015	Increase	Decrease	Foreign exchange gain/(loss)	January 31, 2016
Gross amount	23,792	14,541		174	38,508
TOTAL NET VALUES	**23,792**	**14,541**		**174**	**38,508**

Acquisition of CIVITEC

In March 2015, ESI Group acquired an 80% stake in CIVITEC. The preliminary allocation of the acquisition price of EUR 900 thousand did not lead to recognize a goodwill.

(In thousands of euros)	Preliminary allocation
Deferred tax assets on previous years losses	272
Provision for employee benefits	(9)
Carrying amount of net assets prior to the acquisition	863
NET ASSET VALUE AT ACQUISITION DATE (100%)	**1,125**

Minority shareholder has a put option, which has been recorded as a decrease in Equity for EUR 225 thousand. ESI Group also benefits from an indefinite-life call option (see details in note 3.3).

Acquisition of ITI

In January 2016, ESI Group acquired a 96%stake in ITI GmbH. The preliminary allocation of the acquisition price of EUR 17 952 thousand led to the recognition of a goodwill amounting to EUR 14 541 thousand.

(in thousands of euros)	Preliminary allocation
Customer Relationship	3,044
Capitalized Research and Development costs	1,469
Deferred tax liabilities on intangible assets	(1,354)
Deferred tax assets on previous years losses	220
Carrying amount of net assets prior to the acquisition	174
NET ASSET VALUE AT ACQUISITION DATE (100%)	**3,553**

Minority shareholder has two put options, which have been recorded as a decrease in Equity for EUR 874 thousand. ESI Group also benefits from two call options (see details in note 3.3).

3.2.2. 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 of euros)	January 31, 2016	January 31, 2015
Amortization of acquired intangibles assets	(1,160)	(679)
Acquisition costs	(1,294)	(24)
Others external income and expenses	-	96
TOTAL OPERATING INCOME AND EXPENSES	**(2,454)**	**(607)**

Evolution in amortization costs related to business combination between 2014 and 2015 results from the acquisition of technological bricks in 2015. Costs for the fiscal year 2015 include only one month of amortization of ITI GmbH assets. Expected costs for the fiscal year 2016 should amount to at least EUR 1.8 million.

Note 3.3. Off-balance sheet commitments related to 2015 acquisitions

Following the acquisition of CIVITEC, ESI has an option to purchase shares from the minority shareholder. The price of this call option cannot be reliably estimated given that the option is to be offered indefinitely and the underlying shares are not listed on an active market.

Following the acquisition of ITI GmbH, ESI has two options to purchase shares from the minority shareholder. These options can be exercised between July and December 2018 and 2019 respectively. To date, the exercise of these call options cannot be presumed.

Note 3.4. List of entities in the scope of consolidation

The table below presents the dates of entry into the scope of consolidation, headquarters and the percentage of capital directly or indirectly held of Group subsidiaries:

Fully consolidated subsidiaries	Date of creation or acquisition	Subsidiary headquarters	% ownership	
			January 31, 2016	January 31, 2015
Calcom ESI SA	December 2002	Lausanne, Switzerland	99%	99%

ITI GmbH	January 2016	Dresden, Germany	96%	
ITI Southern Europe	January 2016	Lyon, France	96%	
CIVITEC	March 2015	Versailles, France	80%	
CyDesign Labs, Inc.	October 2013	Palo Alto, United States	99%	99%
CYDESIGN LTD	October 2013	West Midlands, United Kingdom	99%	99%
Efield AB	December 2011	Kista, Sweden	100%	100%
Engineering System International	April 1973	Paris, France	100%	100%
Engineering System International GmbH	July 1979	Eschborn, Germany	100%	100%
ESI Group Beijing Co., Ltd	October 2010	Beijing, China	100%	100%
ESI Group Hispania SL	February 2001	Madrid, Spain	100%	100%
ESI Italia Srl	September 2008	Bologna, Italy	100%	100%
ESI North America, Inc.	March 1992	Troy, Michigan, United States	100%	100%
ESI South America Comércio e Serviços de Informatica, Ltda	June 2008	Sao Paulo 015, Brazil	95%	95%
ESI Software (India) Private Limited	February 2004	Bangalore, India	100%	100%
ESI Services TUNISIE	April 2009	Hammam Lif, Tunisia	90%	90%
ESI UK LIMITED	January 2002	London, United Kingdom	100%	100%
ESI US Holdings, Inc.	August 2002	Dover, Delaware, United States	49%	49%
ESI US R&D, Inc.	August 2002	San Diego, California, United States	74%	74%
ESI ATE Holdings Limited	July 2006	Hong Kong, China	100%	100%
ESI ATE Technology (China) Ltd	August 2006	Beijing, China	100%	100%
ESI US Inc.	February 2012	Farmington Hills, United States	100%	100%
ESI Services Vietnam Co., Ltd	December 2013	Ho Chi Minh City, Vietnam	100%	100%
ESI Software Germany GmbH	August 2011	Stuttgart, Germany	100%	100%
Hankook ESI Co., Ltd	September 1995	Seoul, South Korea	99%	99%
Hong Kong ESI Co., Ltd	February 2004	Hong Kong, China	100%	100%
Mecas ESI s.r.o.	May 2001	Plzen, Czech Republic	95%	95%
Nihon ESI K.K.	July 1991	Tokyo, Japan	97%	97%
OpenCFD Limited	September 2012	Berkshire, United Kingdom	100%	100%
Pacific Mindware Engineering Private Limited	December 2008	Maharashtra, India	100%	100%
Straco	April 2001	Compiègne, France	98%	98%
Zhong Guo ESI Co., Ltd	February 2004	Guangzhou, China	100%	100%
Subsidiary accounted for using the equity method	Date of creation or acquisition	Subsidiary headquarters	% ownership	
			January 31, 2016	January 31, 2015
AVIC ESI (Beijing) Technology Co., Ltd	February 2014	Beijing, China	45%	45%

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

Note 4. Operating data

Note 4.1. Revenues

There are two main sources of ESI Group revenues: user licensing and related maintenance services, and services.

To ensure better management of orders and business opportunities, the Group has a customer base and CRM (Customer Relationship Management) software. As the revenues of the Licenses activity are recognized on installation or renewal, the notion of backlog is only relevant for the Services activity, which revenues are recognized based on actual production. The backlog represents at all times the amount of revenues remaining to be recognized (future production) on orders already recorded. Each of the Group's production units is in charge of continuously monitoring the backlog of its activity.

User Licensing and maintenance

Revenues from licensing stem from royalties paid under licensing agreements granted to end customers and related maintenance services. Royalties are earned for the following two types of services:

- Lease of annual renewable licenses that include the right to use the software plus maintenance services for a year. In this case, revenues from maintenance represent 15% of the total royalty;
- Grant of perpetual rights to use the software plus a year (renewable) of maintenance services. In this case, revenues from maintenance represent 5% of the total royalty;
- Software maintenance services in cases where the customer has previously been granted perpetual user rights' for this software.

Maintenance services include updates and technical support.

Revenues from user licensing are recorded if:

- The Group can demonstrate the existence of an agreement with end customer;
- The software has been delivered and accepted;
- The amount represented by the user license for the software is determined or determinable;
- Recovery is likely.

If one of these four criteria is not met, revenues from user licensing are deferred until all criteria are met. Revenues from maintenance are differed and recorded according to the straight-line method over the term of the maintenance agreement, which generally lasts one year.

Services

Revenues from services consist mainly of consulting and training fees. They are recognized according to the percentage of completion method. Associated costs are recorded as expenses when incurred based on project progress. A provision for losses on completion is recorded if necessary.

(In thousands of euros)	January 31, 2016	January 31, 2015
TOTAL LICENCES AND MAINTENANCE[1]	97,038	84,521
Consulting	26,524	24,284
Other [1]	1,155	2,213
TOTAL SERVICES[1]	27,680	26,496
CONSOLIDATED REVENUES	**124,718**	**111,017**
Total co-financed research and development projects in revenues from services	3,209	2,888

(1) 2014 data have been reclassified from the line « Other » to « Total licenses and maintenance » (EUR 1.2 million) for a better comparability with 2015.

Note 4.2. Trade receivables

Trade receivables are initially recorded at their nominal value, as the potential impact of discounting is immaterial.

Receivables are depreciated when their net realizable value, estimated by reference to the risk of non-recovery, is less than their carrying amount.

Depending on the nature of the receivables, the risk associated with doubtful receivables is assessed individually or using statistical methods.

DETAIL OF SHORT TERM RECEIVABLES

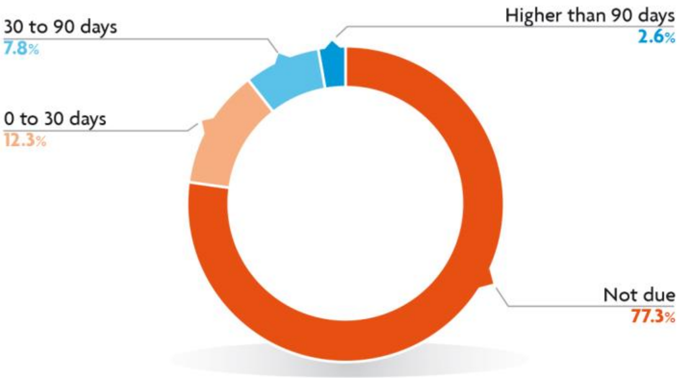
(In thousands of euros)	January 31, 2016	January 31, 2015
Trade receivables	57,472	50,728
Work in progress and unbilled receivables	13,902	13,696
Depreciation of trade receivables	(3,699)	(2,797)
TOTAL SHORT TERM RECEIVABLES, NET OF DEPRECIATION	**67,676**	**61,626**

(In thousands of euros)	January 31, 2015	Change in scope of consolidation	Provisions	Reversals	Foreign exchange gain/(loss)	January 31, 2016
Depreciation	(2,797)	(72)	(924)	90	5	(3,699)
Total	**(2,797)**	**(72)**	**(924)**	**90**	**5**	**(3,699)**

The Group's clientele includes mainly:

- Major industrial corporations, especially companies in the automotive, aerospace and steel industries;
- Government agencies for governmental and defense projects;
- University bodies.

AGE OF SHORT TERM RECEIVABLES



	January 31, 2016	January 31, 2015
Not due	52,291	48,356
0- 30 days	8,301	7,887
30- 90 days	5,299	2,350
More than 90 days	1,785	3,035
TOTAL short term receivables	**67,676**	**61,626**

Total trade receivables not yet due represent 41.9% of annual revenues. This percentage is relatively high because of important seasonality of sales, especially high at the end of the fourth quarter of the fiscal year.

Receivables overdue by more than 90 days concern mainly Chinese state and Chinese public sector customers, whose payment terms are longer.

Note 4.3. Deferred income

Deferred income essentially corresponds to maintenance to be realized. Maintenance includes updates, technical support and developments of minor additional features for the standards products made at the request of the customers.

(In thousands of euros)	January 31, 2016	January 31, 2015
Maintenance services to be rendered	16,204	14,423
Other deferred income	4,860	4,532
TOTAL DEFERRED INCOME	**21,064**	**18,956**

Note 4.4. Operating expenses

(In thousands of euros)	January 31, 2016	January 31, 2015
External expenses	(13,300)	(12,120)
Real estate rentals	(5,187)	(5,193)
Fees	(2,786)	(2,778)
Taxes and duties	(538)	(642)
Amortization and provisions	(2,921)	(2,578)
Personnel costs (1)	(78,594)	(67,538)
Other external expenses and income	(9,585)	(11,215)
TOTAL CURRENT OPERATING expenses	(112,911)	(102,063)
Other operating income and expenses (2)	(2,454)	(607)
TOTAL OPERATING EXPENSES	**(115,365)**	**(102,668)**

(1) For personnel costs details see note 5.2.

(2) For other operating income and expenses details see note 3.2.2.

Note 4.5. Information by geographic area

The Group develops, markets and provides technical support for software that allows engineers to conduct virtual tests designed to predict and improve the anticipated performance and quality of a product based on a series of constraints. The Group's "operating segments" refer to components making up the Group for which separate financial information is available and whose operating results are reviewed regularly by the Company's management in order to evaluate their performance and make decisions about how to allocate resources. ESI Group is classified as operating in a single segment since the two main business activities identified by the Group (Licensing and Services) are closely linked. In accordance with paragraphs 31-34 of the IFRS 8 standard, ESI Group presents the revenues from ordinary activities and non-current assets by region (the three main regions being EMEA (Europe, Middle East, Africa), Asia-Pacific and the Americas).

Revenues are distributed over the regions where they were effectively earned.

(In thousands of euros)	EMEA	Asia-Pacific	Americas	Eliminations	Consolidated
YEAR ENDED JANUARY 31, 2016					
External customers	57,098	44,291	23,329	-	124,718
Affiliate companies	76,535	8,206	6,944	(91,685)	-
NET SALES	133,633	52,497	30,273	(91,685)	124,718
ASSETS ALLOCATED	**253,466**	**33,243**	**21,279**	**(100,973)**	**207,015**
YEAR ENDED JANUARY 31, 2015					
External customers	53,480	38,475	19,062	-	111,017
Affiliate companies	66,737	6,700	4,246	(77,683)	-
NET SALES	120,217	45,175	23,308	(77,683)	111,017
ASSETS ALLOCATED	**209,430**	**33,311**	**16,164**	**(87,518)**	**171,387**

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

Note 4.6. Off-balance sheet commitments related to operational activities

The Group leases all of its office buildings and some of its computer equipment through simple lease contracts. These contracts are not capitalized.

Minimum future lease payments due under lease contracts as of January 31, 2016 are listed below:

Due at January 31 (In thousands of euros)	2017	2018	2019	2020	2021 and beyond	Total
Minimum rental payment	5,193	4,250	3,198	2,479	3,059	18,179

As part of its recurring operational activities, the Company has entered into the following pledges:

- Rent security deposit established in December 2012 with Crédit du Nord for EUR 82 thousand (lease expires December 2022);
- Rent security deposit established in February 2014 with BNP Paribas for EUR 64 thousand (lease expires October 2016).

Note 5. Personnel costs and employee benefits

Note 5.1. Headcount

Headcount is calculated on a "Full-Time Equivalent" (FTE) basis:

(In thousands of euros)	January 31, 2016	January 31, 2015
France	288	271
Rest of the world	767	732
TOTAL	**1,054**	**1,003**

The increase of + 51 FTE results from 2015 acquisitions for + 22 FTE.

Note 5.2. Personnel costs

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

(In thousands of euros)	January 31, 2016	January 31, 2015
Salaries	(61,739)	(53,418)
Payroll taxes	(15,994)	(14,339)
Share-based payment	(286)	(219)
Long term employee benefits	(575)	438
TOTAL PERSONNEL COSTS	**(78,594)**	**(67,538)**

Note 5.3. Provision for employee benefits

In certain countries, the Group's employees benefit from different pension plans, retirement compensation, length-of-service awards linked to seniority requirements and additional post-employment benefits. To cover these benefits, the Group has defined contribution plans and defined benefit plans in place.

A defined contribution plan is a pension plan into which the Group pays fixed contributions to a third-party entity. The Group does not have any obligation other than to pay the premiums, and the corresponding expense is recorded in the income statement for the fiscal year.

A defined benefit plan is a plan that guarantees a certain level of benefits in the future depending on salary, age and seniority of the employee. Such is the case for benefits that may be paid when the employee retires.

For defined benefit plans, in accordance with IAS 19 R "Employee Benefits", obligations are determined using the "projected unit credit method". This actuarial method stipulates that each period of service entitle the employee to one unit of rights to benefit and evaluate each of these units separately in order to arrive at a final commitment. Actuarial assumptions used differ depending on the country (discount rate, inflation rate, mortality table) and the company (staff turnover rates, rate of future salary increases).

Defined benefit long term plans recognized in accordance with IAS 19 R are as follows:

- For France: retirement benefits, supplementary pension plan provided by an insurance company;
- For South Korea, India and Japan: severance pay owed to employees when they leave the company, calculated on the basis of seniority within the company.

5.3.1. Actuarial assumptions

Discount rates	January 31, 2016	January 31, 2015
France	1.90%	1.30%
Japan	0.75%	0.50%
South Korea	2.10%	2.40%
India	8.40%	7.90%

The discount rates used are the following:

- AA-rate corporate bond rates in the eurozone, adjusted according to the duration of the Group's commitments for France;
- Rates reported by the central banks of the other countries.

Rate of salary increase	January 31, 2016	January 31, 2015
France	2.50%	2.50%
Japan	3.00%	3.00%
South Korea	3.00%	3.00%
India	8.33%	8.33%

Turnover rates are calculated per subsidiary and per age group according to the past experience of each subsidiary.

5.3.2. Change in commitment and provisions

(In thousands of euros)	January 31, 2015	Change in scope of consolidation	Change in equity (OCI)	Provisions	Reversals	Foreign exchange gain/(loss)	January 31, 2016
Provision for employee benefits	6,849	9	(73)	190	(115)	(40)	6,820
TOTAL	**6,849**	**9**	**(73)**	**190**	**(115)**	**(40)**	**6,820**

Analysis of the variation in the provision recorded in the balance sheet:

(In thousands of euros)	January 31, 2016	January 31, 2015
CHANGE IN COMMITMENTS		
Commitments at opening	**(6,944)**	**(5,372)**
Costs of services rendered in the period	(690)	(531)
Interest expenses	(136)	(149)
Benefits paid	118	148
Actuarial gains and losses	69	(1,629)
Acquired companies	(9)	
Change in plan	-	567
Reduction in plan	-	261
Foreign exchange gain/ (loss)	73	(239)
COMMITMENTS AT CLOSING	**(7,520)**	**(6,944)**
CHANGE IN FAIR VALUE OF ASSETS		
Fair value of assets at opening	**95**	**45**
Calculated return on assets	6	3
Employer contributions (1)	633	38
Benefits paid	(6)	(3)
Actuarial gains and losses	4	0
Foreign exchange gains and other	**(32)**	**11**
FAIR VALUE OF ASSETS AT CLOSING	**700**	**95**
NET EXPENSES FOR THE YEAR		
Costs of services rendered in the period	(690)	(532)
Finance charges	(130)	(146)
Interest expenses	(136)	(149)
Calculated return on assets	6	3
Change in plan	-	568
Reduction in plan	-	261
NET PENSION (EXPENSE)/INCOME FOR THE YEAR	**(820)**	**151**
PROVISION RECOGNIZED ON THE BALANCE SHEET		
Commitments financed	(2,439)	(1,586)
Fair value of assets	700	95
Net commitments financed	**(1,739)**	**(1,491)**
Commitments not financed	(5,082)	(5,358)
(PROVISION)/ASSET AT CLOSING	**(6,820)**	**(6,849)**
CHANGE IN THE PROVISION		
Provision at opening	**(6,849)**	**(5,327)**
Net expense for the year	(820)	151
Actuarial gains and losses	73	(1,629)

Employer contributions [1]	633	38
Benefits paid	112	146
Acquired companies	(9)	
Foreign exchange gain/ (loss)	40	(227)
(PROVISION)/ASSET AT CLOSING	**(6,820)**	**(6,849)**

[1] Contributions paid by the employer to external funds are mainly due to South Korea, where it is now mandatory to fund a large portion of the commitments

5.3.3. Sensitivity of commitments to fluctuations in the discount rate

(In thousands of euros)	
Obligation – 0.5%	(8,009)
Obligation	(7,520)
Obligation + 0.5%	(7,074)

(In thousands of euros)	
Total actuarial gains and losses	**73**
Experience adjustment	(204)
Change in financial assumptions	388
Change in demographic assumptions	(115)
Yield on assets	4

Note 5.4. Share based payments

Stock options may be granted to certain employees of the Group. They entitle them to subscribe to new shares or purchase existing shares of ESI Group four or five years after stock options are awarded at a fixed exercise price set on the award date. Criteria for the granting of stock options may include performance requirements as well as continued employment within the Group.

In accordance with IFRS 2 standard, options are measured at the fair value of the benefit granted to the employee, estimated at grant date. They are recorded as personnel costs in the income statement on a straight-line basis over the vesting period of the option, offset against equity. The expense is recorded in the income statement per destination according to the allocation of each concerned person.

The fair value of the option is determined using the "Black–Scholes" model which main parameters are: the exercise price of the options, their expected life, share price at grant date, the inherent volatility of the share price and the risk-free interest rate.

Free shares may also be awarded to employees of the Group. The fair value of the benefit granted is determined based on the share price on the day of the award multiplied by the number of shares awarded. This cost is recorded on a straight-line basis over the vesting period.

Terms and conditions of stock options and free shares plans

Stock options have been authorized by various General Meetings and could potentially dilute ESI Group's legal capital. The table below describes the status of the various plans under which options have been granted but not yet exercised

Plan number	Year that plan was established	Number of stock options / of shares allotted or to be allotted	Number of shares granted	Of which performance shares	Exercise price	Outstanding options not yet exercised at January 31, 2016	Year that stock options can be exercised
Plan 7	2005	100,000	100,000	60,900	8.86	0	2015-2016
Plan 9	2006	200,000	200,000	97,900	8.86	31,920	2016
Plan 10	2012	180,000	180,000	62,300	25.94	128,625	2020-2025

Plan 15	2013	294,538	20,000	20,000	21.66	20,000	2025
Plan 17	2014	180,000	7,350	0	27.17	7,350	2023
TOTAL STOCK OPTIONS		954,538	507,350	241,100		187,895	
Plan 14	2012	21,755	21,755	0	0	19,185	2021
Plan 14 bis	2013	60,000	0	0	0		
TOTALFREE SHARES		81,755	21,755	0		19,185	
TOTAL STOCK OPTIONS AND FREE SHARES		**1,036,288**	**529,105**	**241,100**		**207,080**	

Total expense incurred related to share-based payments for the fiscal year ended January 31, 2016 stands at EUR 180 thousand. Those related to free shares stands at EUR 106 thousand.

All stock options and free shares include a continued employment requirement.

Movements in stock options and free shares plans are as follows:

	2015		2014	
	Numbers of options and free shares	Weighted average exercise price	Numbers of options and free shares	Weighted average exercise price
OPTIONS NOT EXERCISED / FREE SHARES TO BE REMITTED AT FEBRUARY 1ST	178,330	19.71	248,910	19.35
Options granted / Free shares to be remitted	45,500	24.26	32,755	8.84
Options expired or cancelled	(10,100)	25.81	(90,545)	16.12
Options exercised	(6,650)	8.86	(12,790)	8.86
OPTIONS NOT EXERCIESED / FREE SHARES TO BE REMITTED AT JANUARY 31	207,080	20.54	178,330	19.71
OPTIONS THAT MAY BE EXERCISED AT JANUARY 31, 2016	**31,920**	**8.86**	**38,570**	**8.86**

The main data and the assumptions underlying the valuation of equity instruments at fair value were as follows:

	Stock-options					Free shares
	Plan 7	Plan 9	Plan 10	Plan 15	Plan 17	Plan 14
Share price at grant date	9	9	25 to 28	25	28	27
Exercise period in years	5	5	3 to 5	4	4	4
Volatility	30%	30%	22% to 25%	22%	23%	25%
Dividend rate	0%	0%	0%	0%	0%	0%
Risk-free rate	4.0%	4.0%	0.3% to 1.3%	0.4%	0.7%	1.2%

The fair value of free shares was calculated on the basis of ESI Group's share price at the award date and is valued at EUR 24.31 per share.

Note 6. Intangible and tangible assets

Note 6.1. Intangible assets

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

(In thousands of euros)	January 31, 2015	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	January 31, 2016

GROSS AMOUNTS						
Research and development costs	41,616	1,469	23,556	(17,487)	12	49,166
Intangible assets with an indefinite useful life	12,044					12,044
Other intangible assets	16,375	3,376	2,837	(30)	(2)	22,556
TOTAL	**70,034**	**4,845**	**26,393**	**(17,517)**	**10**	**83,766**
AMORTIZATION						
Research and development costs	(13,013)		(20,100)	17,487		(15,626)
Intangible assets with an indefinite useful life	(73)					(73)
Other intangible assets	(11,472)	(307)	(1,746)	27	54	(13,444)
TOTAL	**(24,558)**	**(307)**	**(21,846)**	**17,514**	**54**	**(29,143)**
NET CARRYING AMOUNTS						
Research and development costs	28,603	1,469	3,456		12	33,539
Intangible assets with an indefinite useful life	11,971					11,971
Other intangible assets	4,902	3,069	1,092	(3)	52	9,112
TOTAL	**45,477**	**4,538**	**4,547**	**(3)**	**64**	**54,623**

Evolutions related to change in scope of consolidation refer to ITI GmbH acquisition for research and development costs, and to ITI GmbH and CIVITEC acquisitions for other intangible assets (respectively customer relationship and codes).

Increase over the fiscal year of other intangible assets results mainly from acquisition of activities during the first half of the year: Ciespace, Presto, Picviz Labs, representing EUR 2.3 million.

6.1.2. Research and development costs

Research and development costs borne to gain new scientific or technical knowledge are recorded as expenses when incurred.

Research and development costs are capitalized in situations where the six requirements set forth under IAS 38, "Intangible Assets," are met:

- Technical feasibility of completing the research and development project has been established;
- The Group has the intention of completing the project;
- The Group will be able to use or sell the product arising from the research and development project;
- There will likely be future economic benefits attached to the product arising from the project, and a market exists for this product;
- There are proper technical, financial and other resources available to complete the research and development project and to sell the resulting product;
- The Group has the ability to reliably measure the expenses attributable to the research and development project.

The expenses thus converted into assets include the cost of direct labor as well as sub-contracting. They are amortized on a straight-line basis over a period of 12 months for development work that leads to the yearly release of new software versions sold by the Group, and on a straight-line basis over 24 months for development work that leads to major improvements to existing products.

Research and development costs that do not meet IAS 38 criteria are recorded as expenses when incurred.

In certain cases research and development costs entitle the Group to a tax credit, recorded during the fiscal year when expenses were incurred. These tax credits are deducted from research and development costs.

NET IMPACT OF THE CAPITALIZATION OF RESEARCH AND DEVELOPMENT COSTS

(In thousands of euros)	January 31, 2016	January 31, 2015
Research and development costs capitalized during the period	23,556	21,109
Research and development costs amortized during the period	(20,100)	(19,910)
NET IMPACT OF THE CAPITALIZATION OF RESEARCH AND DEVELOPMENT COSTS	**3,456**	**1,198**

Releases, which correspond to the commercial launch of new versions or upgrades to our software, are the result of commercial and strategic decisions. In some cases, management decides to wait until several upgrades have been made to market a new version rather than to release several different versions with minor upgrades during the year; in other cases, a new version with a major upgrade may be marketed even if other improvements are planned in the near future. While projects are generally planned to be released on a yearly basis, actual release calendar may vary from one year to the next. These changes have an impact on amortization start dates and, consequently, on amortization amounts recorded.

Net value of capitalized developments costs stands for 13.8 months of incurred research and development costs (EUR 33.5 million) as of January 31, 2016, as compared to 14.3 months (EUR 28.6 million) as of January 31, 2015.

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

(In thousands of euros)	January 31, 2016	January 31, 2015
R&D costs incurred during the period[1]	**(29,109)**	**(23,945)**
R&D costs capitalized during the period	23,556	21,109
R&D costs amortized during the period	(20,100)	(19,910)
French R&D tax credit	2,881	2,777
TOTAL R&D COSTS ACCOUNTED FOR DURING THE FISCAL YEAR	**(22,772)**	**(19,969)**

(1) Including EUR 5,553 thousand of expenses accounted for as direct costs in 2015, versus EUR 2,836 thousand in 2014

6.1.3. Intangible assets with an indefinite useful life

Intangible assets with an indefinite useful life include source codes that allow the Company to obtain intellectual property rights to the software code. Specifically, it involves the translation of the laws of physics into programming language in the form of algorithms that make it possible to simulate the reaction of materials under external constraints.

The intangible assets stemming from the purchase of business units are deemed to have indefinite useful lives as long as no substitute technology currently exists and as long as the recurrent business model (yearly leases) ensure that the installed base continues to generate revenues over the long-term.

The Group is of the opinion that the useful life of these intangible assets cannot be determined as long as the underlying scientific content in purchased products is not challenged by a technological breakthrough that would render it obsolete. Furthermore, significant research and development efforts (representing 30% of revenues from licensing) focusing on these up-and-coming products guarantee the long-term value of the asset.

Assets with an indefinite useful life are not amortized. They are subject to impairment tests performed each year, either on an individual basis or as part of cash-generating units (CGUs). The impairment testing process for CGUs is described in note 3.1.

The useful life of an intangible asset with an indefinite useful life is reviewed each year to determine whether events and circumstances continue to support an indefinite useful life assessment for this asset. If they do not, the change in the useful life assessment from indefinite to finite must be accounted for prospectively.

6.1.4. Other intangible assets

Intangible assets with a finite useful life consist mainly of software. In accordance with IAS 38, they are valued at cost.

Amortization is recorded in the income statement based on the estimated useful life of the asset, according to the following criteria:

	Amortization	Useful life
Office and similar software applications	Straight-line method	1 to 3 years
Operational software	Straight-line method	3 to 5 years
Codes – third-party software integrated in the products	Straight-line method	5 to 8 years

The period and method of amortization for an intangible asset with a finite useful life are re-measured at least at the end of each period. Any change in the estimated useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are recorded by modifying the period or method of amortization. The impact of such change is accounted for prospectively as a change in estimate.

Amortization costs of intangible assets with finite useful lives are recorded in the income statement under the category of expense related to the function of the intangible asset.

Note 6.2. Tangible assets

6.2.1. Accounting principles

In accordance with IAS 16 "Property, Plant and Equipment", these assets are valued at cost. They are not subject to any type of revaluation. Amortization is recorded in the income statement based on the estimated useful life of the asset, according to the following criteria:

	Amortization	Useful life
Fixtures and fittings	Straight-line method	5 to 10 years
Computer hardware	Straight-line method	3 to 5 years
Office furnishings	Straight-line method	5 to 7 years

6.2.2. Change in the gross value, amortization and net value of tangible assets

(In thousands of euros)	January 31, 2015	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	January 31, 2016
GROSS AMOUNTS						
Fixtures and fittings	3,121	3	635	(19)	(11)	3,729
Computer hardware and equipment	11,134	22	1,487	(975)	(95)	11,572
Office furnishings and other tangible assets	2,816	628	89	(42)	(41)	3,450
TOTAL	**17,070**	**653**	**2,211**	**(1,036)**	**(147)**	**18,751**
AMORTIZATION						
Fixtures and fittings	(2,286)	(2)	(241)	19	8	(2,502)
Computer hardware and equipment	(8,985)	(22)	(1,225)	950	74	(9,208)
Office furnishings and other tangible assets	(2,257)	(445)	(135)	36	26	(2,775)
TOTAL	**(13,528)**	**(469)**	**(1,601)**	**1,005**	**108**	**(14,485)**
NET CARRYING AMOUNTS						
Fixtures and fittings	835	1	394		(3)	1,227
Computer hardware and equipment	2,149		262	(25)	(22)	2,364
Office furnishings and other tangible assets	558	183	(46)	(6)	(14)	675
TOTAL	**3,542**	**184**	**610**	**(31)**	**(39)**	**4,266**

Note 7. Financing and financial instruments

Note 7.1. Financial assets and liabilities

Financial assets and liabilities are mainly composed of:

- Long term financial debts, short term borrowings and overdrafts, which represent gross debt – see details in note 7.1.2 ;
- Loans, other short term financial assets, cash and cash equivalents – see details in note 7.1.3, which added to gross debt represent net financial debt ;
- Derivative financial instruments – see details in note 7.1.4.

7.1.1. Fair value of financial assets and liabilities

	Carrying amount under IAS 39			January 31, 2016
(In thousands of euros)	Amortized cost	Fair value through equity	Fair value through income statement	Carrying amount
ASSETS				
Non-current financial assets:				
- Long term investments			124	124
- Deposits and guarantees	1,957			1,957
- Factoring of French R&D tax credit for 2014	1,991			1,991
- Hedging instruments assets			90	90
Trade receivables	67,676			67,676
Cash and cash equivalents			10,327	10,327
LIABILITIES				
Bank borrowings	43,105		258	43,363
Factoring of French R&D tax credit for 2014	1,991			1,991
Others financial debts	1,210			1,210
Hedging instrument liabilities		21		21
Others financial liabilities		1,397		1,397
Payables	8,073			8,073

In accordance with IFRS 13, financial income and expenses at fair value are classified according to the following hierarchy:

- Level 1: inputs for the asset or liability that are quoted prices on an active market;
- Level 2: inputs for the asset or liability that are based on observable market data;
- Level 3: inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents' fair value is level 1 according to IFRS 13 hierarchy.

Hedging instruments and floor of the syndicated loan (see note 7.2) fair values are level 2.

Debts on earn-out, put options (other financial liabilities) and long term investments fair values are level 3.

7.1.2. Gross debt

On November 5, 2015, ESI Group signed a syndicated line of credit for EUR 49 million with a pool of six banks. The goals of this new line of credit include refinancing residual debt from the former syndicated loan and financing of future acquisitions, as well as meeting recurring year-end needs for working capital (short-term revolving credit for a maximum total of 10 million euros).

The lines of credit for refinancing and external growth have a maturity date of November 2022, partly with annual straight-line amortization. The repayment rate is the Euribor rate for each drawdown period with a minimum rate of 0% and with a margin between 1.9% and 2.4% depending on the type of amortization. Financing of needs for working capital was added into the syndicated loan in order to optimize ESI Group's cash flow management, which is strongly affected by the seasonal nature of the company's business model.

As of January 31, 2016, EUR 33 million of the long-term lines of credit has been used and ESI Group has established hedging instruments for 40% of the principal for the refinancing line of credit (see Note 7.1.4). For the revolving credit, EUR 8 million has been used. As of the date of account statements, the entire revolving line of credit has been paid off.

All financial debts are denominated in euros.

Detail of financial debt by maturity

At January 31, 2016	Maturity at January 31					
(In thousands of euros)	2017	2018	2019	2020	2021 and beyond	Total
Syndicated loan	3,777	3,777	3,777	3,777	17,940	33,048
Short-term revolving loan	8,000					8,000
Other bank borrowings	2,058		258			2,316
Factoring of French R&D tax credit for 2014				1,991		1,991
Profit-sharing funds	25	155				179
Repayable advances		272				272
Other long-term liabilities	108	129	328	65	129	759
TOTAL	**13,967**	**4,333**	**4,363**	**5,833**	**18,069**	**46,566**
	CURRENT: 13,967					**NON-CURRENT: 32,597**

At January 31, 2015	Maturity at January 31					
(In thousands of euros)	2016	2017	2018	2019	2020 and beyond	Total
Syndicated loan	2,818	2,818	2,818	2,818		11,272
Commercial paper	7,500					7,500
Other bank borrowings	1,921			276		2,197
Leasing	15	144	23	0		182
Profit-sharing funds	355	272	0	0		627
Repayable advances	75	111	137	305	194	822
TOTAL	**12,684**	**3,345**	**2,978**	**3,399**	**194**	**22,600**
	CURRENT: 12,684					NON-CURRENT: 9,916

Financial debt by type of interest rate and maturity

At January 31, 2016	Maturity at January 31					
(In thousands of euros)	2017	2018	2019	2020	2021 and beyond	Total
Fixed-rate debt	25	155				180
Variable-rate debt	13,835	3,777	4,035	5,768	17,940	45,355
No-interest debt	108	401	328	65	129	1,031
TOTAL	**13,967**	**4,333**	**4,363**	**5,833**	**18,069**	**46,566**
	CURRENT: 13,967					NON-CURRENT: 32,597

7.1.3. Cash and cash equivalents

Cash and cash equivalents correspond to cash and marketable securities qualified as cash equivalents under IAS 7.

In accordance with IAS 39, marketable securities are recognized at market value at the closing date. Changes in market value are recognized in financial result.

The Group classifies no-risk investments in interest-bearing accounts, commercial paper and certificates of deposit originally maturing in three months or less and not bearing any significant interest rate risk. These cash equivalents are denominated in euros and recorded at their net asset value.

(In thousands of euros)	January 31, 2016	January 31, 2015
Cash	10,327	11,940
Other marketable securities	-	-
Total Cash and cash equivalents	**10,327**	**11,940**

7.1.4. Derivative financial instruments

The Group uses derivative instruments to manage its exposure to fluctuations in exchange rates and interest rates. In accordance with IAS 39, derivative instruments are recorded at cost and revaluated at fair value at each closing date.

Changes in fair value of derivative financial instruments are accounted for as follows :

- Cash flow hedges: the effective portion of the gain or loss from re-measurement at fair value is recognized directly in equity until the effective completion of the scheduled transaction. When the scheduled transaction is completed, the amount recognized in equity is reclassified in profit;
- Instruments not qualifying for hedge accounting: certain derivatives that in substance represent hedges do not qualify for hedge accounting under IAS 39. Gains and losses from the fair value measurement of these derivative instruments are recognized directly in financial income and expenses, in accordance with the criteria of IAS 39.

INTEREST RATE DERIVATIVES

Interest rate swaps signed by ESI Group are hedging instruments to the variable interest rate of the syndicated loan. The same hedging principle was applied for the previous syndicated loan which was early terminated in November 2015, along with related interest rate swaps.

New interest rate swaps signed in December 2015 are as follows:

- Two swaps of EUR 1.9 million, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying a fixed rate of 0.195% ;
- One swap of EUR 1.9 million, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying a fixed rate of 0.22%.

As of January 31, 2016 market value of these instruments was EUR -21 thousand.

FOREIGN CURRENCY DERIVATIVES

In order to manage foreign currency risk on cash flows between the Group parent company and its subsidiaries, ESI Group may purchase foreign currency options at any time and enter into any other type of foreign exchange contract.

Foreign currency derivatives used in 2015 enabled hedging of flows in Japanese yen (through forwards, tunnels, targets), in South Korean won (through non delivery forwards) and in Indian rupee (through non delivery forwards). These instruments are not qualified and recorded as hedge accounting as defined by IAS 39.

As of January 31, 2016 market value of these instruments was EUR 90 thousand.

Note 7.2. Financial income and expenses

(In thousands of euros)	January 31, 2016	January 31, 2015
Interest on borrowings	(552)	(379)
Interest income	30	65
Foreign exchange gains and losses	314	1,598
Other financial expenses	(742)	(543)
Financial result	**(950)**	**741**

Interest on borrowings are composed of interests paid on bank loans, costs related to hedging instruments for the syndicated loan, and of EUR 151 thousand of costs related to the signing of the early-terminated previous syndicated loan, which were recorded in the balance sheet and not fully amortized.

Other financial expenses include:

- Financial costs related to employee benefits;
- Financial costs related to factoring of R&D French tax credit for 2012-2014;
- The valuation of the 0% floor included in our current syndicated loan (cost of EUR 258 thousand);
- Interests paid related to other short-term financing, especially commercial papers used in 2014.

The tables below give a breakdown of foreign exchange gains and losses for main currencies during 2015 fiscal year:

(In thousands of euros)	January 31, 2016	January 31, 2015
USD	415	2,112
JPY	120	(657)
KRW	(200)	282
Others currencies	(21)	(140)
Total	**314**	**1,598**

(In thousands of euros)	January 31, 2016	January 31, 2015
Realized	1,429	164
Unrealized (revalued at closing rates)	(1,434)	1,774
Hedging – realized	(184)	103
- Of which JPY	(348)	103
- Of which KRW	(76)	-
- Of which INR	239	-
Hedging – unrealized (valued at market value)	502	(444)
Total	**314**	**1,598**

Note 7.3. Risk management policy

Country risks and foreign currency risk

During the fiscal year ended January 31, 2016, 45.8% of the Group's revenues were generated in Europe and 54.2% outside of Europe, with 35.5% coming from Asia (mainly Japan, South Korea, China and India) and 18.7% coming from the Americas (mainly the United States). The Group is thus exposed to economic and political uncertainties in these zones.

The Group is also highly exposed to risks stemming from changes in foreign exchange rates. For the fiscal year ended January 31, 2016, 40.9% of revenues were generated in EUR (euro), 21.6% in USD (US dollars), 19.3% in JPY (Japanese yen) and 5.4% in KRW (South Korean won).

Furthermore, 52.4% of costs are spent in EUR (euro), 17.2% in USD (US dollars), 7.6% in JPY (Japanese yen), 6.6% in INR (Indian rupee), 3.5% in CZK (Czech koruna), 3.5% in KRW (South Korean won) and 3.3% in CHF (Swiss franc).

The Group's policy aims, whenever possible, at hedging budgeted net operating cash flows by entering into instruments which guarantee as close as possible budgeted exchange rates.

The table below shows the results of sensitivity analysis of EBIT to exchange rate fluctuations. The assumption made is a 10% decline in the average exchange rate applied to all transactions (purchases and sales), with respect to the principal currencies to which the Group is exposed.

Currency	Average consolidation exchange rate	Exchange rate used for analysis	Effect on EBIT in millions of euros
JPY	133.52	146.88	- 1.5
KRW	1259.19	1385.11	- 0.3
CZK	27.21	29.93	- 0.2
USD	1.10	1.21	- 0.1
INR	71.26	78.38	0.5
CHF	1.07	1.17	0.4

Interest rate risk

Most of the Group's financial debts are with variable interest rates. In order to limit the negative impacts of rate fluctuation, the Group applies a non-speculative management policy, using derivatives described in Note 7.1.4.

Sensitivity analysis to interest rate risk

The only debts included in the calculation of interest rate sensitivity are those with variable interest rates. These are mostly bank loans which drawdown and repayment are left to the borrower's discretion. As of January 31, 2016, EUR 8 million of the revolving credit line have been used and this line has been entirely paid off as of the date of issuance of account statements. Given ESI Group's optimization of cash flow management, the amount of debt incurred from bank loans over the course of the year has fluctuated, with generally lower levels during the year than at the end of the fiscal year, like-for-like.

The calculations of foreign-exchange sensitivity below assume stability of financial debts incurred at the January 31, 2016 levels, meaning a fixed level of drawdown on bank loans as of that date.

The table below simulates the effects of interest rates rising and falling by 1% in terms of interest payments:

(In thousands of euros)	< 1 Year	≥ 1 Year, < 5 Year	≥ 5 Years	Total
Variable rate financial liabilities	(13,835)	(13,580)	(17,940)	(45,355)
Variable rate financial assets				
Off-balance sheet commitments				
NET POSITION	**(13,835)**	**(13,580)**	**(17,940)**	**(45,355)**
Sensitivity to a 1-point decrease				40
Sensitivity to a 1-point increase				(230)

Equity risk

In accordance with IAS 32, treasury shares are accounted for as part of consolidated shareholder equity and variations in value are not recorded. When treasury shares are acquired or sold, shareholder equity is adjusted to reflect the value of the shares acquired or sold. Note 9.1 contains a detailed description of changes in treasury stock, whether those changes be part of a liquidity agreement or to cover stock options and shares given to employees for free.

As part of its cash flow management, the Group does not directly hold any other listed stock and does not invest in equity-dominated or equity-benchmark UCITSes. Thus, the Group's net financial income is not directly or significantly affected by variation in any given stock or market index.

Liquidity risk

The Company has specifically reviewed its liquidity risk and it considers itself to be in a position to satisfy future payment obligations. Off-balance sheet commitments (covenants) relating to the syndicated loan signed in November 2015 are detailed in Note 7.4.

Note 7.4. Off-balance sheet commitments relating to Group financing

ESI Group pledged 99.98% of the shares of ESI France and 95.50% of the shares of ESI Software Germany as collateral in the credit agreement signed on November 5, 2015.

As long as the Group remains a debtor under the collateral agreement or documents, the borrower agrees, under penalty of early repayment, to adhere to the following ratios:

- Ratio R1: Consolidated net financial debt divided by consolidated EBITDA: less than or equal to 3;
- Ratio R2: Consolidated net financial debt divided by consolidated equity: less than or equal to 0.60;
- Ratio R3: Consolidated free cash-flow divided by debt servicing: higher than or equal to 1. If the ratio is lower than 1, net consolidated cash balance should be positive.

It should be noted that the following clarifications have been added to these definitions with the agreement of the bank pool:

- The consolidated EBITDA used in ratio R1 is calculated according to the new method used by ESI Group since the first half of 2015. This indicator used for financial communication include, among others, the impact of capitalization of re-search and development costs;
- The net consolidated cash balance used in ratio R3 includes short-term financial debts as shown on the balance sheet, excluding the portion of long-term lines of credit from the syndicated loan that will be reimbursed in less than one year and excluding debts related to French R&D tax credit, which represents a long-term financing.

As of January 31, 2016, on the basis of the consolidated financial statements certified by the auditors, the Group was compliant with the ratios described above.

Note 8. Income tax

Note 8.1. Income tax expense

Deferred tax assets and liabilities reflect future decreases or increases in income tax expense to be paid that result, for certain asset and liability items, from temporary valuation differences between their carrying amounts and their tax base, as well as from tax loss and tax credit carry-forwards. Deferred tax assets and liabilities are assessed by tax entity or group based on the tax rates applicable to the years during which these temporary differences are likely to be reversed or paid. Deferred tax assets and liabilities are adjusted for each entity in order to present either a net asset position or a net liability position.

Deferred tax assets are only recorded in cases where it is likely that the future tax savings they represent will be realized. The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, if applicable, lead the Group to derecognize deferred tax assets that it had recognized in prior years.

Company head of the tax group	Country
ESI Group	France
ENGINEERING SYSTEM INTERNATIONAL GMBH	Germany
ESI North America, Inc.	United States

8.1.1. Income tax expense

(In thousands of euros)	January 31, 2016	January 31, 2015
Current taxes	(3,254)	(2,287)
Deferred taxes	97	(1,308)
TOTAL	**(3,157)**	**(3,595)**

8.1.2. Tax proof

(In thousands of euros)	January 31, 2016	January 31, 2015
Net income before income taxes	**8,527**	**9,191**
Including share of profit of associates	123	100
Standard tax rate in France	**33.33%**	**33.33%**
Theoretical tax	**(2,801)**	**(3 030)**
Permanent differences between accounting income and taxable income	79	(338)

Impact of liability method	(85)	(128)
Impact of tax rate differences	(218)	(65)
Unrecognized deferred tax assets and unused tax losses	(381)	(33)
Recognition of previously unrecognized deferred tax assets	250	-
GROUP INCOME TAX EXPENSE	**(3,157)**	**(3 595)**
Effective tax rate	37.6%	39.5%

The effective tax rate for 2015 includes a reversal in the provision for tax risk in France.

Note 8.2. Deferred taxes

BREAKDOWN OF DEFERRED TAXES

(In thousands of euros)	January 31, 2016	January 31, 2015
DEFERRED TAX ASSETS		
Tax loss carryforwards	1,616	3,077
Temporary differences related to the treatment of maintenance	4,411	3,823
Provisions for employee benefit commitments	2,196	2,135
Temporary differences related to the treatment of internal sales	214	606
Provisions and other adjustments	1,314	257
TOTAL DEFERRED TAX ASSETS	9,752	9,898
DEFERRED TAX LIABILITIES		
Amortization of acquired intangible assets	(1,697)	(1,024)
Other	(788)	(643)
TOTAL DEFERRED TAX LIABILITIES	(2,485)	(1,667)
NET DEFERRED TAX	**7,267**	**8,231**

Total non-capitalized deferred tax expense on companies' loss carryforwards unlikely to be recovered amounts to EUR 942 thousand. The timeframe used for estimating the recoverability of deferred tax assets relating to tax loss carryforwards is five years.

RECONCILIATION OF DEFERRED INCOME TAX EXPENSE ON THE BALANCE SHEET AND ON THE INCOME STATEMENT

(In thousands of euros)	
Net deferred tax assets at opening (February 1st 2015)	**8,231**
Acquired companies	(942)
Deferred tax expenses recorded in the income statement	97
Deferred tax expenses recognized directly in equity (revised version of IAS 19)	(42)
Foreign exchange loss on deferred tax expenses	(57)
Deferred tax expenses related to allocations of goodwill assets and other items	(21)
NET DEFERRED TAX ASSETS AT CLOSING (January 31, 2016)	**7,267**

Note 9. Equity and earnings per share

Note 9.1. Share capital, reserves and treasury stock

ESI Group’s legal capital is made up of ordinary stock.

The currency translation difference in Equity is used to record losses or gains generated by converting the financial statements of foreign subsidiaries into euros as well as foreign exchange losses or gains on transactions characterized as long-term investments with foreign subsidiaries.

When the Group buys back its own shares, these shares are recorded at their net purchase price as treasury stock and deducted from equity. The proceeds from the sale of treasury stock are accounted for directly in equity.

Legal capital

As of January 31, 2016, ESI Group's legal capital was EUR 17,865 thousand, consisting of 5,955,072 common shares with a par value of 3 euros each.

Dividend

ESI Group did not pay out any dividend during the period.

Treasury shares

The number of treasury shares held by ESI increased by 6,237 during the fiscal year as part of a liquidity agreement. The percentage of capital held as treasury shares following these transactions stood at 7.2% as of January 31, 2016, versus 7.1% as of January 31, 2015. The Group owns a total of 430,884 shares of its own stock, purchased at a historical cost of EUR 4,147 thousand and having, at this same date, a market value of EUR 10,384 thousand, for an unrealized gain of EUR 6,237 thousand. Historical cost and adjustments for gains or losses on past disposals are deducted from equity.

Transactions with non-controlling interests

Transactions with non-controlling interests are recognized directly in equity. See details in notes 3.1 and 3.2.

Note 9.2. Minority interest

If, in the event of losses, the share corresponding to minority interests is negative, the excess and any further losses attributable to the minority interests are deducted from the minority interests.

Note 9.3. Earnings per share

The summary table below details the earnings per share:

(In thousands of euros)	January 31, 2016	January 31, 2015
NET INCOME	**5,330**	**5,496**
Earnings per share *(in euros)*	0.96	0.99
Average number of shares	5,534,542	5,539,558
Diluted earnings per share *(in euros)*	0.96	0.99
Average number of diluted shares	5,577,169	5,553,743

Only stock options and free shares may have a dilutive effect

Note 10. Other balance sheet items

Note 10.1. Other assets

10.1.1. Other non-current assets

(In thousands of euros)	January 31, 2016	January 31, 2015
Security deposits	1,957	1,937
Other financial assets	1,991	-
Investments in non-consolidated companies	124	57
Total Other non-current assets	**4,072**	**1,994**

Security deposits are related to real estate rentals.

Other financial assets correspond to French 2014 R&D tax credit, which has not been used to pay income tax and financed (factoring, see details in note 7.1.2)

10.1.2. Other current assets

(in thousands of euros)	January 31, 2016	January 31, 2015
French R&D tax credit	2,836	2,269
Other tax credits	2,647	1,907
VAT and other receivables	7,208	5,953
TOTAL OTHER CURRENT ASSETS	**12,692**	**10,129**

French R&D tax credit receivables as of January 31, 2016 are related to costs incurred in 2015 fiscal year.

R&D tax credits related to fiscal years 2010 to 2013, not used to pay corresponding income taxes, have been financed (factoring) and deconsolidated.

10.1.3. Prepaid expenses

Prepaid expenses consist primarily of rent for real estate and other property.

Note 10.2. Others liabilities

10.2.1. Accrued compensation and taxes and others short-term liabilities

(In thousands of euros)	January 31, 2016	January 31, 2015
Employee-related liabilities	13,335	10,774
Tax payables	9,958	9,417
Other current liabilities	3,300	3,979
ACCRUED COMPENSATION AND TAXES AND OTHERS SHORT-TERM LIABILITIES	**26,593**	**24,170**

Tax payables consist primarily of VAT payables in the amount of EUR 7,539 thousand.

10.2.2. Provisions for contingencies, risks and disputes

According to IAS 37 " Provisions, Contingent Liabilities and Contingent Assets ", a provision is recorded when the following 3 conditions are met: the Group has an obligation towards a third party resulting from past events, it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation, the amount of the obligation can be estimated in a reliable way.

Provisions are established mostly to mitigate labor-related risks and other risks and expenses related to the Company's business activities.

(In thousands of euros)	January 31, 2015	Provisions	Reversals – provisions used	Reversals – provisions not used	Foreign exchange gain/loss	January 31, 2016
Disputes	2,331	153	(397)	(533)	(3)	1,551
CURRENT PROVISIONS FOR LIABILITIES	**2,331**	**153**	**(397)**	**(533)**	**(3)**	**1,551**

The reversals accounted for in 2015 are related to social and fiscal risks in France. In particular, the provision related to tax audit on fiscal years 2009-2011 has been partially reversed as the tax control is finished.

Note 11. Related party transactions

Executive corporate officers' compensation

Compensation and benefits paid to the Group's executive corporate officers during the fiscal years ended January 31, 2016 and January 31, 2015 can be broken down as follows:

(In thousands of euros)	January 31, 2016	January 31, 2015
Salary	740	669
Bonuses	2	4
Travel bonus	118	38
Fringe benefits	205	214
Director's fees	16	16
TOTAL	**1,081**	**941**

Related party transactions

Mrs. Cristel de Rouvray, Director, conducted in 2015 for ESI Group specific missions relating to human resources, consulting, and strategic management, for USD 60,000. This contract was authorized by the Board of Directors of April 14, 2015, prior to the beginning of the mission.

Note 12. Fees paid to statutory auditors

	PricewaterhouseCoopers Audit				Ernst & Young				Total			
	Amount		%		Amount		%		Amount		%	
(In thousands of euros, VAT excluded)	Y	Y-1	Y	Y-1	Y	Y-1	Y	Y-1	Y	Y-1	Y	Y-1
Audit												
Statutory audit, certification, review of annual and consolidated financial statements												
– Parent company	139	159	54%	64%	162	175	63%	67%	301	333	58%	66%
– Fully consolidated subsidiaries	77	81	30%	33%	97	86	37%	33%	174	167	34%	33%
Other work and services directly related to statutory audit												
– Parent company	31	7	12%	3%	0	0	0%	0%	31	7	6%	1%
– Fully consolidated subsidiaries	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
AUDIT SUB-TOTAL	247	247	96%	100%	259	261	100%	100%	505	507	98%	100%
OTHER SERVICES RENDERED BY STATUTORY AUDITORS' MEMBER FIRMS TO FULLY CONSOLIDATED SUBSIDIARIES												
Legal, tax, social	9	0	4%	0%	0	0	0%	0%	9	0	2%	0%
Other	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
OTHER SERVICES SUB-TOTAL	9	0	4%	0%	0	0	0%	0%	9	0	2%	0%
TOTAL	**256**	**247**	**100%**	**100%**	**259**	**261**	**100%**	**100%**	**514**	**507**	**100%**	**100%**

On January 31, 2008, ESI Group elected to follow the recommendation of the French Association of Statutory Auditors (CNCC) from December 2007 and to record, at the reporting date, the expenses related to audit fees corresponding to services actually rendered during the period. Total fees related to parent company legal auditors accounted for as of January 31, 2016 amount to EUR 267 thousand.

Note 13. Subsequent events

On February 5, 2016, ESI Group acquired 100% of shares of the US company Mineset Inc., specialized in machine learning.

5.1.6. Statutory auditors' report on the consolidated financial statements

Year ended January 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended January 31, 2016, on:

- The audit of the accompanying consolidated financial statements of ESI Group;
- The justification of our assessments;
- The specific verification required by law.

These consolidated financial statements have been approved by your Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the group as at January 31, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Development costs

As part of our assessments of the accounting principles followed by your group, we reviewed the criteria used for capitalizing and amortizing development expense and measuring the recoverable amount. We ensured that note 6.2 to the consolidated financial statements gives appropriate information.

Impairment testing of intangible assets

At each financial year end, your company performs impairment tests on goodwill and assets with indefinite useful lives, as described in notes 3.1 and 6.1.3 to the consolidated financial statements. We reviewed the impairment testing method as well as the cash flow projections and assumptions used for the tests and ensured that the information given in notes 3.1 and 6.1.3 is appropriate.

Deferred tax assets

Note 8.1 to the consolidated financial statements presents the accounting rules and methods adopted with respect to the deferred tax assets accounting and valuation. Our work consisted in assessing the data and assumptions underlying the estimation of the deferred tax assets value.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

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

Neuilly-sur-Seine and Paris-La Défense, May 19, 2016

The statutory auditors

French original signed by

PricewaterhouseCoopers Audit	ERNST & YOUNG Audit
Thierry Charron	Frédéric Martineau

5.2. ESI Group SA annual financial statements

5.2.1. Income Statement as at January 31, 2016

Income statement (in list form)

(in euros)	France	Exports	January 31, 2016	January 31, 2015
Sales of goods held for resale		18,670	18,670	179,658
Sales of services	9,692,197	69,446,019	79 138 216	68 307 747
NET REVENUES	9,692,197	69, 446,019	79,156,885	68,487,405
Production held as inventory			(78,327)	657,310
Self-created assets			24,131,565	21,595,695
Operating subsidies			47,422	99,088
Reversals of depreciation, amortization, and provisions, expense transfers			4,281,797	716,244
Other income			2,006	858
OPERATING INCOME			107,541,349	91,556,602
Purchases of goods (including customs duties)				137,076
Change in inventory (goods)				
Purchases of raw materials and other supplies (and customs duties)				63,662
Changes in inventory (raw materials and supplies)			35,623	(51,648)
Other purchases and external expenses			58,082,944	45,826,133
Taxes and duties			1,262,932	1,260,825
Wages and salaries			13,203,318	12,446,007
Payroll taxes			6,295,088	5,772,989
Depreciation and amortization of non-current assets			22,489,443	22,118,342
Provisions				
– On current assets			621,420	4,067,565
– For contingencies and charges			153,000	308,477
Other expenses			3,749,068	453,428
OPERATING EXPENSES			105,892,840	92,402,859
OPERATING RESULT			**1,648,509**	**(846,257)**
Intercompany income			138,988	141,487
Income from other securities and receivables from non-current assets				6,460
Other interest and similar income			28,062	56,300
Provision reversals and expense transfers			1,022,304	905,387
Foreign exchange gains			3,527,978	2,036,814
Net gains from sales of marketable securities			50	767
FINANCIAL INCOME			4,717,384	3,147,217

Financial amortization allowances and provisions			1,470,014	872,546
Interest expense			668,364	613,750
Foreign exchange losses			2,056,588	1,370,360
Net losses from sales of marketable securities			6	
FINANCIAL EXPENSES			4,194,974	2,856,658
FINANCIAL RESULT			**522,410**	**290,559**
CURRENT INCOME BEFORE TAX			**2,170,919**	**(555,697)**

Income statement (cont.)

(In euros)	January 31, 2016	January 31, 2015
Non-recurring income from management transactions	103,434	65,923
Non-recurring income from capital transactions	16,553	20,922
Provision reversals and expense transfers	87,079	
NON-RECURRING INCOME	207,067	86,845
Non-recurring expenses from management transactions	120,901	83,131
Non-recurring expenses from capital transactions	24,118	32,037
Non-recurring amortization allowances and provisions	403,189	200,215
NON-RECURRING EXPENSES	548,210	315,384
NON RECURRING RESULT	**(341,143)**	**(228,538)**
Employee profit-sharing		
Income tax	(2,205,946)	(1,865,499)
TOTAL INCOME	112,465,800	94,790,666
TOTAL EXPENSES	108,430,079	93,709,403
NET PROFIT (LOSS)	**4,035,722**	**1,081,263**

5.2.2. Balance sheet as at January 31, 2016

Assets

(In euros)	Gross value	Amortization	Net Amounts	
			January 31, 2016	January 31, 2015
INTANGIBLE ASSETS	**76,585,602**	**24,815,759**	**51,769,844**	**46,767,333**
Start-up costs				
Research and development costs	38,371,999	16,100,242	22,271,758	14,381,250
Franchises, patents, licenses and other similar rights	27,246,620	8,642,970	18,603,649	16,910,319
Goodwill	1,027,970	72,547	955,423	955,423
Other intangible assets	9,939,014		9,939,014	14,220,341
Intangible advances and prepaids				
TANGIBLE ASSETS	**8,305,146**	**6,103,662**	**2,201,484**	**1,647,987**
Land				
Buildings				

Machinery and equipment				
Other tangible non-current assets	8,305,146	6,103,662	2,201,484	1,647,987
In-progress tangible assets				
Advances and prepaids				
INVESTMENTS	**65,597,840**	**4,706,879**	**60,890,962**	**42,699,697**
Controlling interests	51,231,780	2,958,356	48,273,425	29,348,833
Loans granted to controlling interests	13,011,681	1,748,523	11,263,158	12,265,765
Other fixed securities	15		15	15
Loans	451,680		451,680	452,303
Other investments	902,684		902,684	632,781
NON-CURRENT ASSETS	150,488,589	35,626,299	114,862,289	90,815,017
INVENTORIES	**1,690,478**	**0**	**1,690,478**	**1,885,165**
Raw materials and supplies	46,740		46,740	82,364
Work in progress, goods				
Work in progress, services	1,621,721		1,621,721	1,741,549
Finished and semi-finished goods				
Goods held for resale				
Down payments to suppliers	22,017		22,017	61,253
RECEIVABLES	**59,618,679**	**1,679,723**	**57,938,956**	**51,725,497**
Trade receivables	50,446,124	1,548,340	48,897,784	44,285,835
Other receivables	9,172,555	131,384	9,041,171	7,439,662
Shares subscribed, called and unpaid				
MISCELLANEOUS	**6,962,540**	**0**	**6,962,540**	**6,182,842**
Marketable securities (treasury stock)	4,106,217		4,106,217	3,915,400
Cash	2,856,323		2,856,323	2,267,442
ADJUSTMENT ACCOUNTS	**2,136,708**		**2,136,708**	**1,977,333**
Prepaid expenses	2,136,708		2,136,708	1,977,333
CURRENT ASSETS	70,408,405	1,679,723	68,728,681	61,770,838
Expenses capitalized, to be amortized	508,826		508,826	189,005
Bond discounts to be amortized				
Foreign exchange gains and losses	560,031	0	560,031	872,548
OVERALL TOTAL	**221,965,850**	**37,306,023**	**184,659,827**	**153,647,406**

Liabilities

(In euros)	January 31, 2016	January 31, 2015
Individual or legal capital	17,865,216	17,845,266
Additional paid-in capital	37,468,611	37,429,642
Legal reserve	1,641,768	1,587,705
Retained earnings	30,236,839	29,209,639

Net profit (loss)	**4,035,723**	**1,081,263**
Regulated provisions	758,350	541,346
EQUITY	92,006,507	87,694,862
Conditional advances	370,674	370,674
OTHER EQUITY	370,674	370,674
Provisions for contingencies	1,444,801	2,365,639
Provisions for charges		
PROVISIONS FOR CONTINGENCIES AND CHARGES	1,444,801	2,365,638
FINANCIAL LIABILITIES	**45,512,340**	**23,056,227**
Bank borrowings (1)	42,884,431	20,133,434
Miscellaneous financial debt (1)	2,397,985	2,697,167
Down payments from clients	229,924	225,626
OPERATING LIABILITIES	**36,139,930**	**27,341,031**
Trade payables	30,233,386	21,971,523
Accrued taxes and personnel expenses	5,906,544	5,369,508
MISCELLANEOUS LIABILITIES	**5,895,968**	**8,658,187**
Liabilities to fixed asset suppliers, including unpaid amounts on subscribed investment shares	248,573	680,816
Other liabilities	5,647,395	7,977,372
ADJUSTMENT ACCOUNTS	**619,329**	**168,125**
Deferred income	619,329	168,125
LIABILITIES	88,167,567	59,223,571
Foreign exchange gains and losses	2,670,279	3,992,661
OVERALL TOTAL	**184,659,827**	**153,647,406**

(1) Reclassification in 2014 of EUR 7.5 million of commercial papers from Miscellaneous financial debt to Bank borrowings for a better comparability

5.2.3. Notes to the annual financial statements of ESI Group SA

Table of contents to the notes to annual financial statements

The balance sheet total at January 31, 2016 is EUR 184,659,827.37 and the income statement for the fiscal year shows a net profit of EUR 4,035,722.76.

The financial statements cover a 12-months period, from February 1, 2015 to January 31, 2016.

They have been prepared in accordance with the French General Accounting Plan and generally accepted accounting principles.

All amounts listed in these notes are in thousands of euros unless otherwise indicated.

The notes below are an integral part of the annual financial statements.

Note A. Significant events of the year

Acquisitions of subsidiaries

- Acquisition on March 27, 2015 of a 80% stake in French company CIVITEC
- Acquisition on January 5, 2016 of a 96% stake in German company ITI GmbH

Acquisition of technological bricks (intangible assets)

- Acquisition of Ciespace and Presto activities in the United States and of Picviz Labs in France, respectively on April 10, 2015, May 6, 2015 and March 3, 2015.

Financing

- Early reimbursement of the previous syndicated loan and signing on November 5, 2015 of a new syndicated loan of EUR 49 million with a 7 years maturity (2022).

Note B. Accounting principles

Accounting principles are unchanged from the previous fiscal year.

The general accounting conventions have been applied in compliance with the principle of prudence, in accordance to the basic assumptions of:

- Going concern;
- Consistency in accounting methods from one fiscal year to the next;
- Fiscal year independence;
- As well as the general rules governing the preparation and presentation of annual financial statements.

The basic method used to measure the items recorded in the financial statements is the historical cost method.

Note B.1. Intangible assets

Research and development costs

Internal research and development costs are recorded as expenses in the income statement following the nature of the expense method; for costs of research and development performed by providers forming part of the Group or third party vendors, these costs are recorded as subcontracting expenses in the income statement.

All internal expenses related to research and development work incurred during the fiscal year (salaries, environment-related costs and expenses) are capitalized and recognized as self-created assets.

Capitalization is performed on a per-project basis. Only projects meeting the six criteria for capitalization defined in the regulations on assets are capitalized as assets. Research and development projects or the portion of expenses not meeting all of the six criteria continue to be recognized as expenses. Amortization begins at delivery of the project. Projects that are unfinished at the reporting date are capitalized as work in progress.

Projects involving the development of new versions delivered on a yearly basis are amortized over 12 months.

Projects involving the development of new, significant features, which represent investments, are amortized over 24 months.

Amortization begins at release of the version.

If there is a risk that a project will not be marketed, a provision for depreciation equivalent to the net carrying amount is recorded.

At the end of the amortization period, research and development costs are removed from the asset line.

Other intangible assets

Other intangible assets (patents, software, etc.) are amortized according to the straight-line method according to their estimated useful life.

Office and similar software applications	1 year on a straight-line basis
Other software	3 years on a straight-line basis
Codes	5 years on a straight-line basis

Assets with an indefinite useful life (including goodwill) are not amortized. They are recorded on the balance sheet at their gross carrying amount. They are subject to impairment tests if there are signs of impairment or at least once per year. For purposes of these tests, they are integrated into cash generating units (CGUs), which represent a homogeneous group of assets that generate identifiable cash flows. A provision based on the difference between the calculated value and the carrying amount is recorded if applicable.

Note B.2. Tangible assets

Tangible assets are measured at their net purchase price (purchase price plus related expenses).

Amortization is calculated according to estimated useful life:

General facilities	6 years on a straight-line basis
Fixtures and fittings, miscellaneous building work	10 years on a straight-line basis
Transportation equipment	5 years on a straight-line basis
Office equipment	3 years on a straight-line basis
New computer equipment	3 years on a double-declining balance basis
Used computer equipment	1 year on a straight-line basis
Furnishings	5-10 years on a straight-line basis

Note B.3. Investments

- The "Controlling interests" item corresponds to the historic cost of shares held in other companies.

At the reporting date, if the remeasured value of the shares is less than their purchase price, a provision is established for the difference.

This value is calculated by the Company based on a multiple of estimated revenues and is adjusted for the cash and cash equivalents of the company in question.

If a provision is recorded on the net carrying amount of a controlling interest on the basis of its remeasured value, and if this entity shows a ngative net equity, the negative part of this equity will also be subject to a provision. This provision will be recorded first on the remaining net carrying amount of the controlling interest, then on its trade receivables, and, where applicable, the balance is recorded under provision for contingencies.

Intercompany receivables are provisioned if there is a risk of non-recovery. No provision of this type was recorded during the fiscal year.

- Other investments include deposits and securities.

Accelerated capital allowances

The acquisition costs incurred since 2009 related to the purchase of shares in controlled entities are recorded, for tax purposes, at the cost of the shares and deducted, through accelerated capital allowances, over a period of five years (Art. 21; French General Tax Code Art. 209-VII, December 2006).

Note B.4. Supply inventories

Other supply inventories are valued at cost according to the first in, first out method.

Note B.5. Work in progress

Work in progress is valued at production cost with a margin assessed according to the percentage of completion method.

Note B.6. Trade and other receivables

Receivables are measured at their par value. A depreciation is established if the market value is less than the carrying amount of the receivable. All depreciations are determined on a case-by-case basis.

Note B.7. Provisions for contingency and charges

Provisions for contingency and charges are calculated on the basis of the assessment of related risks at the balance sheet date. The Company complies with Regulation No. 00-06 of December 7, 2000 with regard to liabilities.

Note B.8. Foreign currency transactions

Income and expenses in foreign currency are recorded at their exchange value as at the date of the transaction. Liabilities, receivables and cash in foreign currency are recorded on the balance sheet at the exchange value prevailing at the balance sheet date.

The difference resulting from the conversion of the debts and receivables in currencies at this final exchange rate is recorded on the balance sheet as a "currency translation adjustment."

A provision for contingencies is recorded for foreign exchange losses.

Note B.9. Hedging of exchange rate risk

ESI Group uses financial instruments to hedge its exposure to the risk of fluctuation in exchange rates. ESI Group's policy is to trade in the financial markets only in order to hedge its business-related obligations and not for speculative purposes.

Gains or losses stemming from the financial instruments used as part of hedging operations are assessed and recorded in line with the income and expenses recorded on underlined trasactions.

Given the amounts ESI Group pays out and receives in foreign currencies as part of its business, especially in the Japanese yen, ESI Group may use forwards and/or currency options to protect itself from exchange rate fluctuations.

Note B.10. Marketable securities

Marketable securities are recorded at their net purchase price. If, at the balance sheet date, the net asset value is less than the acquisition value, a depreciation is recorded for the difference.

Note B.11. Accounting treatment of European projects

During production of a European project, the income recognized in revenues is determined on the basis of the percentage of completion of the project.

Note B.12. Recognition of revenues

Revenues from licensing stem from royalties paid under licensing agreements granted to end customers and related maintenance services.

Revenues from user licensing are recorded if:

- The Group can demonstrate the existence of an agreement;
- The software has been delivered and accepted;
- The amount represented by the user license for the software is determined or determinable;
- Recovery is likely.

Revenues from services consist mainly of consulting and training fees. They are recognized according to the percentage of completion method. Associated costs are recorded as expenses progressively as they are incurred based on project progress. A provision for losses on completion is recorded if necessary.

Note C. Notes on assets items of the balance sheet

Note C.1. Non-current assets

(In thousands of euros)	Intangible assets	Tangible assets	Investments	Total
Gross value as at February 1, 2015	**67,741**	**7,101**	**46,646**	**121,488**
Acquisitions, increases	2,539	1,253	20,538	24,329
Acquisitions, R&D increases	24,503			24,503
Disposals/item-to-item transfers and scrap		(49)	(1,586)	(1,635)
R&D disposals	(18,197)			(18,197)
GROSS VALUE AS AT JANUARY 31, 2016	76,586	8,305	65,598	150,489
Amortization and provision as at February 1, 2015	**21,273**	**5,454**	**3,947**	**30,673**
R&D allowances for the year	20,843			20,843
Net allowances for the year	897	694	910	2,501
Provisions for the year				
Reversal of provisions for the year			(150)	(150)
Disposals		(44)		(44)
R&D disposals	(18,197)			(18,197)
AMORTIZATION AND PROVISION AS AT JANUARY 31, 2016	24,816	6,104	4,707	35,627
NET VALUE AS AT JANUARY 31, 2016	**51,770**	**2,201**	**60,891**	**114,862**

ESI Group has EUR 657k in goodwill. This amount represents the acquisition on July 26, 1991 to the company Engineering System International, of the branch specializing in the edition of digital simulation software (Product in Applied Mechanics). It has not be depreciated or amortized since this date.

Movements in intangible assets

Increase in intangible assets' gross amount may be broken down as follows:

(In thousands of euros)	Amount
Capitalized research and development costs	24,503
Franchises and patents	2,539
TOTAL	**27,042**

The EUR 2,539k increase in franchises and patents corresponds primarily to the acquisition of Ciespace activity code for EUR 1,886k and to the PicViz Lab activity software.

Reductions in intangible assets' gross amount consist primarily of EUR 18,197k for research and development costs fully amortized at January 31, 2016 and taken off the balance sheet.

Movements in tangible assets

The increase in tangible assets is broken down as follows:

(In thousands of euros)	Acquisitions
Acquisitions of fixtures and fittings	486
Office and computer equipment	766
TOTAL	**1,253**

Investments

This item, totaling EUR 65,598k, includes EUR 51,232k of controlling interests (see item C.2), EUR 13,012k of receivables related to subsidiaries and affiliates (see item C.2), a loan to the managers of ESI Software Germany in the amount of EUR 365k with the associated interest in the amount of EUR 58k, EUR 41k of treasury stock (liquidity contract), as well as deposits and securities related to real estate rentals in Paris, Aix, Lyon and Rungis for EUR 866k.

Note C.2. Controlling interests

Movements in shares/equity investments (gross value)

(In thousands of euros)	As at February 1,2015	Increase	Decrease	As at January 31, 2016
Engineering System International	458			458
Nihon ESI K.K.	75			75
ESI North America, Inc.	3,726			3,726
ESI UK LIMITED	164			164
Calcom ESI SA	2,678			2,678
Hankook ESI Co., Ltd.	941			941
ESI Group Hispania s.l.	100			100
Mecas ESI s.r.o.	912			912
STRACO	1,789			1,789
ESI US Holding, Inc.	796			796
Zhong Guo ESI Co., Ltd	193			193
Acquisition costs Zhong Guo ESI Co., Ltd	2			2

ESI Software (India) Private Limited	2			2
ESI US R&D, Inc.	111			111
HONG KONG ESI CO., Limited	119			119
Acquisition costs HONG KONG ESI CO., Limited	2			2
ESI-ATE HOLDINGS LIMITED	1,737			1,737
Acquisition costs ESI-ATE HOLDINGS LIMITED	56			56
ESI Italia s.r.l.	656			656
ESI SOUTH AMERICA COMÉRCIO E SERVIÇOS DE INFORMÁTICA LTDA	6			6
ESI Services TUNISIA	128			128
Acquisition costs ESI Services TUNISIA	8			8
ESI Group Beijing Co., Ltd	543			543
ESI Software Germany GmbH	9,891			9,891
Acquisition costs ESI Software Germany GmbH	322			322
Efield AB	301	145		446
Acquisition costs Efield AB	129			129
OPENCFD LIMITED	2,351			2,351
Acquisition costs OPENCFD LIMITED	162			162
CyDesign Labs, Inc.	1,904			1,904
Acquisition costs CyDesign Labs, Inc.	283			283
ESI Services Vietnam Co., Ltd	124			124
Acquisition costs ESI Services Vietnam Co. Ltd	14			14
AVIC-ESI (Beijing) Technology Co. Ltd	576			576
Acquisition costs AVIC-ESI (Beijing) Technology Co. Ltd	87			87
Acquisition costs Mineset Inc.		290		290
CIVITEC		900		900
Acquisition costs CIVITEC		62		62
ITI GmbH		17,952		17,952
Acquisition costs ITI GmbH		436		436
Cadence	50	50		100
TOTAL	**31,396**	**19,835**		**51,232**

Fluctuations in shares/equity investments are described under note A "Significant events of the year".

Intercompany receivables

(In thousands of euros)	Gross value	Rate
Loan ESI North America, Inc. 9,700 KUSD	8,883	6-month Libor $ + 1% lending margin
Loan Hong Kong ESI 1,124 KUSD (1)	1,029	6-month Libor $ + 1% lending margin
Loan ESI Group Hispania SL	1,020	Profit-sharing loan capped at 5%

Loan ESI ATE Holdings 2,271 KUSD (2)	2,080	6-month Libor $ + 1% lending margin
TOTAL	**13,012**	
(1) This loan is depreciated by EUR 687k (2) This loan is depreciated by EUR 1,062k		

Movements in the provision for shares/equity investments

(In thousands of euros)	As at February 1,2015	Increase	Reversal		As at January 31, 2016
			used	unused	
ESI-ATE HOLDINGS LIMITED	1,737		-		1,737
HONG KONG ESI CO., Limited	119		-		119
Zhong Guo Co., Ltd	193		-		193
CyDesign Labs, Inc.	0	910			910
TOTAL	**2,049**	**910**	**-**	**-**	**2,959**

The CyDesign Labs, Inc shares have been depreciated such as the net carrying amount equals the portion of the net equity of the subsidiary held by ESI Group.

Note C.3. Work in progress

Work in progress corresponds to consulting studies currently in progress as at January 31, 2016 and measured according to the percentage of completion method.

Note C.4. Receivables – Provisions for receivables

The statement of receivables is presented as follows:

(In thousands of euros)	Gross value	Up to 1 year	1 year to 5 years
Loans granted to controlling interests	13,012		13,012
Loans	452	452	
Treasury stock	41	41	
Other investments	861	25	836
Doubtful or disputed receivables	1,531	1,531	
Trade receivables	10,162	10,162	
Trade receivables with affiliate companies	38,753	38,753	
Personnel and related receivables	2	2	
Social security and other social welfare agencies	19	19	
Income tax receivables – advance payment	1,031	1,031	
2015 R&D tax credit receivable	2,836		2,836
Competitiveness and employment tax credit receivable	108		108
Other tax credits	255	255	
Value added tax (VAT)	1,133	1,133	
Business tax	15	15	
CyDesign Labs, Inc. current account	126	126	
Trade payables, credit notes to be received	41	41	

Co-financed projects	3,594	3,594	
Miscellaneous receivables	13	13	
Prepaid expenses	2,137	2,137	
TOTAL	**76,121**	**59,329**	**16,792**

(In thousands of euros)	As at February 1,2015	Increase	Reversal		As at January 31, 2016
			used	unused	
Provisions for doubtful receivables	4,468	621	(3,538)	(3)	1,548

Note C.5. Marketable securities and treasury stock held

Marketable securities

(In thousands of euros)	Carrying amount	Net asset value	Unrealized gain or loss
Treasury stock (1)	4,147	10,384	6,237
TOTAL	**4,147**	**10,384**	**6,237**
(1) Of which EUR 41k in other investments			

Change in the number of treasury shares

(In thousands of euros)	As at February 1,2015	Increase	Decrease	As at January 31, 2016
Treasury stock	421,346	102,839	(93,301)	430,884

As at January 31, 2016, the net asset value of the 430,884 treasury shares owned stands at EUR 10,384,304 for an unrealized gain of EUR 6,236,845.

Note C.6. Prepaid expenses and expenses capitalized, to be amortized

(In thousands of euros)	As at January 31, 2016
Prepaid rent	644
Maintenance prepaid expenses	732
Other prepaid expenses	760
Debt issuance expenses (1)	509
TOTAL	**2,646**
(1) Amortization on the loan's duration.	

Note C.7. Foreign exchange gains and losses

These gains and losses pertain to the following balance sheet items:

(In thousands of euros)	As at January 31, 2016
Trade receivables	109
Trade payables	375
Current accounts	76
TOTAL	**560**

Note D. Notes on liabilities items of the balance sheet

Note D.1. Equity

The main movements during the fiscal year are summarized in the table below:

(In euros)	As at February 1,2015	Allocation of 2014 profit,	Other movements		As at January 31, 2016
			Increase	Decrease	
Capital	17,845,266		19,950		17,865,216
Share premium	24,898,551		38,969		24,937,520
ESI Software merger premium	9,676,883				9,676,883
Systus merger premium	2,854,209				2,854,209
Legal reserve	1,587,705	54,063			1,641,768
Retained earnings	29,209,639	1,027,200			30,236,839
Net profit for the year	1,081,263	(1,081,263)	4,035,723		4,035,723
Regulated provisions	541,347		217,003		758,350
TOTAL	**87,694,862**	**-**	**4,311,645**	**-**	**92,006,506**

Note D.2. Legal capital

	Number of shares		
	At the end of the fiscal year	Created during the fiscal year	Repaid during the fiscal year
Common shares (par value of EUR 3)	5,955,072	6,650	-
Of which preferred shares (double voting rights)	2,160,448		-

The increase in capital is attributable to the exercise of share subscription options for 6,650 shares.

Note D.3. Regulated provisions

This item consists of accelerated capital allowances. These accelerated capital allowances on the balance sheet correspond to the difference between tax-related amortization and amortization for depreciation. This amortization also corresponds to amortization of the purchase cost of shares.

These regulated provisions are offset in the income statement under exceptional allowances and reversals.

Note D.4. Conditional advances

This item, amounting to EUR 371k, is broken down in the table below:

(In thousands of euros)	As at January 31, 2016	Up to 1 year	1 year to 5 years	More than 5 years
Ademe advance financing agreement	162		162	
Bpifrance advance	209	43	166	
TOTAL	**371**	**43**	**328**	**0**

Note D.5. Provisions for contingencies

Provisions for contingencies may be broken down as shown in the table below:

(In thousands of euros)	As at February 1,2015	Increase	Reversal	As at January 31, 2016

			used	unused	
Foreign exchange gains and losses (note C.7)	873	560	(873)		560
Provisions for contingencies and charges (operating result)	1,493	153	(228)	(533)	885
TOTAL	**2,366**	**713**	**(1,101)**	**(533)**	**1,445**

Provisions for contingencies and charges as at January 31, 2016 mainly correspond to social and tax risks. The provision referring to tax audit for the years 2009-2011 has been partially reversed, as the control is finished.

Note D.6. Statement of liabilities

The statement of liabilities is presented as follows:

(In thousands of euros)	As at January 31, 2016	Up to 1 year	1year to 5 years	More than 5 years
Banks borrowings (D.7)	42,884	13,614	15,107	14,163
Miscellaneous financial debt (D.8)	2,398	2,000	398	
Trade payables – out of Group	5,520	5,520		
Group trade payables, before minority interests	24,713	24,713		
Personnel and related receivables (D.9)	2,217	2,217		
Social security and other social welfare agencies (D.9)	1,898	1,898		
Net value added tax (D.9)	1,339	1,339		
Net other income tax expense (D.9)	453	453		
Liabilities to fixed asset suppliers	249	249		
Other operating payables - Group and associates (D.10)	4,151	4,151		
Other operating payables – out of Group (D.10)	1,496	1,496		
Deferred income (D.11)	619	619		
TOTAL	**87,938**	**58,269**	**15,505**	**14,163**

Note D.7. Bank borrowings

On November 5, 2015, ESI Group signed a syndicated line of credit for EUR 49 million with a pool of six banks. The goals of this new line of credit include refinancing residual debt from the former syndicated loan and financing of future acquisitions, as well as meeting recurring year-end needs for working capital (short-term revolving credit for a maximum total of EUR 10 million).

The lines of credit for refinancing and external growth have a maturity date of November 2022, partly with annual straight-line amortization. The repayment rate is the Euribor rate for each drawdown period with a minimum rate of 0% and with a margin between 1.9% and 2.4% depending on the type of amortization. Financing of needs for working capital was added into the syndicated loan in order to optimize ESI Group's cash flow management, which is strongly affected by the seasonal nature of the company's business model.

As of January 31, 2016, EUR 33 million of the long-term lines of credit has been used and ESI Group has established hedging instruments for 40% of the principal for the refinancing line of credit. For the revolving credit, EUR 8 million has been used. As of the date of account statements, the entire revolving line of credit has been paid off.
Covenants related to this borrowing are presented in Note F.8.
As of January 31, 2016, bank borrowings amount to EUR 42,884,000 and include:

- EUR 33,047,000 of long-term lines of credit from the new syndicated loan;
- EUR 8,000,000 of revolving credit;
- EUR 58,000 of accrued interest on borrowings;
- EUR 1,779,000 of short-term bank advances.

Note D.8. Miscellaneous financial debt

This item, totaling EUR 2,398k, is broken down according to the table below:

(In thousands of euros)	As at January 31, 2016	Up to 1 year	1 year to 5 years	More than 5 years
Liabilities corresponding to Coface financing (1)	272		272	
Intercompany payables/interest accrued	126		126	
Commercial paper (2)	2,000	2,000		
TOTAL	**2,398**	**2,000**	**398**	

(1) Under a marketing insurance policy (repayable advance).
(2) Past due February 1st 2016.

Note D.9. Tax payables and employee-related liabilities

This item is composed of the following components:

(In thousands of euros)	As at January 31, 2016
Provision for paid leave, including social charges	1,987
Provision for bonuses to be paid to employees, including social charges	1,217
Social welfare agencies, etc.	829
VAT collected on customer invoices	1,339
Training, apprenticeship and construction-related taxes	270
Business tax	63
Organic	107
Other tax payables and employee-related liabilities	95
TOTAL	**5,907**

Note D.10. Other operating payables

This item, totaling EUR 5,647k, may be broken down as follows:

(In thousands of euros)	As at February 1,2015	Increase	Decrease	As at January 31, 2016
Straco current account	559		(9)	550
Mecas ESI s.r.o. current account	1,100		(484)	616
Engineering System International current account	1,625		(758)	867
ESI Italia SRL current account	400		(400)	0
Engineering System International GmbH current account	1,186		(997)	190
OpenCFD Ltd current account	872		(15)	857
Efield AB current account	432	1		432
Civitec current account		639		639
Advance payments from customers, special projects	1,716		(318)	1,397
Trade credit notes to be issued - Group	12		(12)	0
Trade credit notes to be issued – out of Group	4		(4)	0
Other liabilities	71	28		99
TOTAL	**7,977**	**667**	**(2,997)**	**5,647**

Note D.11. Deferred income

This item, totaling EUR 619k, pertains to income from operations.

Note D.12. Foreign exchange gains and losses

These gains and losses pertain to the following balance sheet items:

(In thousands of euros)	As at January 31, 2016
Trade receivables	667
Trade payables	46
Intercompany receivables	1,895
Current account	63
TOTAL	**2,670**

Note D.13. Accrued expenses and income

(In thousands of euros)	As at January 31, 2016
Borrowings and financial debts	83
Trade payables	11,645
Provision for paid leave, including expenses	1,987
Provision for bonuses to be paid to employees, including expenses	1,217
Other tax expenses	168
Other liabilities (advances on co-financed projects)	1,397
TOTAL	**16,497**

(In thousands of euros)	As at January 31, 2016
Unbilled receivables – out of Group	2,630
Unbilled receivables with affiliate companies - Group	636
Vendor credit notes to be issued	39
Miscellaneous income	10
TOTAL	**3,315**

Note E. Notes on the income statement

Note E.1. Income from operations

Revenues include the following items:

(In millions of euros)	As at January 31, 2016	%	Observations
Royalties	54,9	69%	Licensing by the distribution subsidiaries of ESI Group
Software licensing	12,0	15%	Licensing directly by ESI Group
Sub-contracting, consulting and other income	2,9	4%	Consulting sold directly by ESI Group
Sub-contracting, consulting and other income - Group	4,2	5%	Consulting invoiced to the subsidiaries
Income from related activities	1,5	2%	Rebilling of expenses to subsidiaries
Services	3,7	5%	Subsidiaries holding fees
TOTAL	**79,2**	**100%**	

Revenues may be broken down by region as follows:

(In millions of euros)	As at January 31, 2016	%
France	9,7	12%
Europe (except France)	25,9	33%
Americas	15,0	19%
Asia	28,7	36%
TOTAL	**79,2**	**100%**

Note E.2. Other income from operations

This item consists mainly of EUR 24,132k in research and development costs capitalized during the fiscal year, broken down below:

(In thousands of euros)	As at January 31, 2016
Production held as inventory	(78)
Self-created assets	24,132
Reversal on depreciation and amortization	677
Reversal on depreciation of trade receivables from ESI North America, Inc. (debt waiver, see note E.7)	3,538
Transfers of expenses related to salaries/employee benefits expense/fringe benefits	49
Other transfers of expenses	20
Subsidies	47
TOTAL OTHER INCOME	**28,384**

Note E.3. Other purchases and external expenses

(In thousands of euros)	As at January 31, 2016	%
Engineering and services	8,217	14%
Group's engineering and services (1)	18,962	33%
Research and development costs (1)	17,724	31%
Materials and supplies	304	1%
Capital leases, rental and rental expenses	3,508	6%
Maintenance and repairs	1,302	2%
Insurance	278	1%
Payments to intermediaries and fees	1,754	3%
Cost of sales (2)	2,065	4%
Advertising, external relations	754	1%
Travel expenses	2,034	4%
Postage, telecommunications expenses	568	1%
Miscellaneous	612	1%
TOTAL	**58,083**	**100%**

(1) Subsidiaries of the Group
(2) Royalties on third-party products and sales commissions.

Note E.4. Fees paid to statutory auditors

Total fees paid to the statutory auditors and recorded on the income statement for the fiscal year may be broken down as follows:

(In thousands of euros)	Ernst & Young		PricewaterhouseCoopers Audit		Total	
Closing date	01/31/2016	01/31/2015	01/31/2016	01/31/2015	01/31/2016	01/31/2015
Certification of annual and consolidated financial statements	147	170	120	137	267	306
Related assignments	0	0	31	7	31	7
Covenants certification	7	7	7	7	13	13
Other (disbursements, etc.)	8	6	12	16	20	22
TOTAL	**162**	**182**	**170**	**166**	**331**	**348**

ESI Group opted to follow the recommendations of the French Association of Statutory Auditors (CNCC) from September 2007 and to record, at the reporting date, the expenses related to audit fees corresponding to services actually rendered during the period. Total audit fees paid to the statutory auditors of ESI Group for the fiscal year ended January 31, 2016 amount to EUR 267k.

Note E.5. Income tax expense

This item is broken down as follows:

(In thousands of euros)	As at January 31, 2016
Business tax	758
Continuing education tax	122
Apprenticeship tax	81
Construction-related tax	52
Tax on company vehicles	41
Organic	87
Branch tax	67
Other	54
TOTAL	**1,263**

Note E.6. Operating allowances

This item is broken down as follows:

(In thousands of euros)	As at January 31, 2016
Amortization allowance for research and development costs	20,752
Amortization allowance for other intangible assets	987
Amortization allowance for tangible assets	694
Amortization allowance for capitalized expenses to be amortized	56
Provision allowance for depreciation of trade receivables	621
Provision allowance for contingencies and charges	153
TOTAL	**23,264**

Note E.7. Other operating expenses

This item is broken down as follows:

(In thousands of euros)	As at January 31, 2016
Royalties	56

Compensation in the form of Directors' fees.	150
Debt waiver in favor of ESI North America Inc. (Reversal provision, see note E.2)	3,538
Miscellaneous expenses	4
TOTAL	**3,749**

Note E.8. Financial result

The positive financial result is composed of the following items:

(In thousands of euros)	As at January 31, 2016
Foreign exchange gain/(loss)	1,471
Gain/(loss) on the foreign exchange rate provision	313
Interest on borrowings	(391)
Interest on commercial paper	(40)
Interest on current trade payables, subsidiary payables	(122)
Interest on current accounts receivable, subsidiary receivables	151
Interest on employee profit sharing	(7)
Factoring financial expenses	(61)
Provision for depreciation of CyDesign US ‘s shares	(910)
Reversal provision for investments	150
Other financial income/(expenses)	(30)
TOTAL	**522**

Note E.9. Exceptional profit

Exceptional profit for the fiscal year is composed of the following items:

(In thousands of euros)	As at January 31, 2016
Profit on sale of treasury stock	(8)
Accelerated capital allowances	(217)
Profit on miscellaneous current assets	89
Provision on miscellaneous current assets	(35)
Exceptional expense on share sales	(17)
Exceptional Amortization on loan’s capitalized expenses	(151)
Miscellaneous	(2)
TOTAL	**(341)**

Note F. Other information

Note F.1. Average headcount

(in full-time equivalent)	Headcount
Management	197
Supervisors, technicians	
Employees	20
Laborers	
TOTAL	**217**

Note F.2. Retirement-related obligations

The Company does not record any retirement-related provisions.

Total obligations related to retirement were estimated at EUR 3,201k at January 31, 2016.

Note F.3. Compensation paid to executive corporate officers

Compensation and benefits paid to the company's executive corporate officers during the fiscal year can be broken down as follows:

(In thousands of euros)	As at January 31, 2016
Salaries	437
Fringe benefits	47
Directors' fees	16
Fringe benefits paid by controlled companies	158
Compensation paid by controlled companies	423
TOTAL	**1 081**

Note F.4. Items pertaining to affiliates and controlled entities, corresponding to multiple balance sheet and financial result items

(In thousands of euros)	Affiliate companies	Participations
CURRENT ASSETS	52,884	-
Intercompany receivables	13,012	-
Inventories and work in progress	1,622	-
Down payments	0	-
Trade receivables	38,117	-
Credit notes to be received, excluding minority interests	0	
Current account	126	-
Prepaid expenses	8	-
LIABILITIES	29,095	-
Advances and payments on account received on orders	230	
Trade payables	24,713	-
Credit notes to be issued, excluding minority interests	0	-
Current account	4,151	
Deferred income	0	
FINANCIAL RESULT ITEMS		-
Expenses	122	-
Income	139	-

Note F.5. Branches

There are two branches integrated within ESI Group's financial statements:

	Name
1	ESI Group Netherlands – Branch Office
2	ESI Group Shanghai Representative Office

	Address	Country
1	Rotterdamseweg 183C 2629 HD Delft	Netherlands
2	Cross Region Plaza, Unit 20D, 899 Lingling Road 200235 Shanghai	China

Note F.6. Off-balance sheet commitments

Capital lease and future lease obligations

(In thousands of euros)	Less than 1 year	Between 1 and 5 years
Real estate rentals	1,568	3,314
Movable property rentals	834	653
Capital leases	0	0
TOTAL	**2,402**	**3,966**

Future lease commitments correspond to the outstanding amounts due on the Group's main lease and rental contracts until the contract is next set to expire.

These figures do not omit the existence of material off-balance sheet commitments in accordance with current accounting standards.

Note F.7. Off-balance sheet commitments relating to financing

ESI Group pledged 99.98% of the shares of ESI France and 95.50% of ESI Software Germany as collateral in a credit agreement dated November 5, 2015.

As long as the Group remains a debtor under the collateral agreement or documents, the borrower agrees, under penalty of early repayment, to adhere to the following ratios:

- Ratio R1: Consolidated net financial debt divided by consolidated EBITDA: less than or equal to 3;
- Ratio R2: Consolidated net financial debt divided by consolidated equity: less than or equal to 0.60;
- Ratio R3: Consolidated free cash-flow divided by debt servicing: higher than or equal to 1. If the ratio is lower than 1, net consolidated cash balance should be positive.

It should be noted that the following clarifications have been added to these definitions with the agreement of the bank pool:

- The consolidated EBITDA used in ratio R1 is calculated according to the new method used by ESI Group since the first half of 2015. This indicator used for financial communication include, among others, the impacts of capitalization of research and development costs;
- The net consolidated cash balance used in ratio R3 includes short-term financial debts as shown on the balance sheet, excluding the portion of long-term lines of credit from the syndicated loan that will be reimbursed in less than one year and excluding debts related to R&D French tax credit, which represent a long-term financing.

As of January 31, 2016, on the basis of the consolidated financial statements certified by the auditors, the Group was compliant with the ratios described above.

ESI Group SA also has financial obligations relating to the acquisition of Presto: a variable earnout of USD 500,000, payable in three installments to the two founders on the first three anniversaries of the acquisition, on condition of their employment at ESI on the payment dates.

Note F.8. Pledges

As part of its recurring operational activities, the Company has entered into the following pledges:

- Rent security deposit established in December 2012 with Crédit du Nord for EUR 82 thousand (lease expires December 2022);
- Rent security deposit established in February 2014 with BNP Paribas for EUR 64 thousand (lease expires October 2016).

Note F.9. Reconciliation of profit /(loss) and tax income/(charge)

(In thousands of euros)	Profit (loss) before tax	Reconciliation of income/loss	Taxable income	Tax (expense)/ income (Charge)/	Profit (loss) after tax

Current income (loss)	2,171	702 (1)	2,873	(867)	1,304
Exceptional profit	(341)	14	(327)	109	(232)
Controlled entities					0
Competitiveness and employment tax credit				127	127
French R&D tax credit				2,836	2,836
TAX INCOME (LOSS)	**1,830**	**717**	**2,547**	**2,206**	**4,036**
(1) This amount of EUR 702k refers partly, in the amount of EUR 921k, to the tax neutralization of the expense of branches included in the financial statements					

Since February 1, 2008, ESI Group has formed a tax consolidation group with its French subsidiary, Engineering System International.

As part of the tax consolidation agreement, it was agreed that the tax burden of Engineering System International integrated for tax purposes would be equal to that which would have applied to it if the subsidiary was not a member of the tax Group.

As regards the financial statements for the fiscal year, for Engineering System International there is no difference between the tax borne as part of the tax consolidation group and that which would have been borne in the absence of tax consolidation.

Neither of the two companies in the tax group has loss carryforwards.

For information, the competitiveness and employment tax credit (CICE) was credited to account 69 “tax credits” as a deduction from tax expense.

Note F.10. Increases and decreases in future tax liabilities

(In thousands of euros)	Amount
Special social security contribution *(contribution sociale de solidarité)*	87
Foreign exchange gains and losses	2,670
Interest	836
TOTAL TEMPORARY DIFFERENCES	**3,593**
NET DECREASE IN FUTURE INCOME TAX LIABILITIES (TAX RATE OF 33.33%)	**1,198**

Increases and decreases in future income tax liabilities were measured based on the statutory tax rate for the French income tax. They result from time difference between tax and accounting treatment of income and expenses.

Note F.11. Subsequent events

On February 5, 2016, ESI Group acquired 100% of shares of the US company Mineset Inc., specialized in machine learning.

Note F.12. ESI Group, consolidating company

ESI Group is the consolidating holding company of the Group.

Note F.13. Table of controlled entities and affiliates (As at January 31, 2016)

	Head-quarters	Capital (con-verted at the ex-change rate on the reporting date)	Share-holders' equity other than capital and net profit for the year (con-verted at the exchange rate on the reporting date)	% of capital owned	Carrying amount of shares held *(In thousands of euros)*		Outstand-ing loans and advances granted by the Company or by the subsidiary	Total guaran-tees granted by the Com-pany	Revenues, after tax, for the last fiscal year (converted at the average exchange rate)	Profit or loss for the last fiscal year (covered at the average ex-change rate)	Dividends received by the Company during the fiscal year
		(In euros)	*(In euros)*	*(As %)*	Gross	Net	*(In euros)*	*(In euros)*	*(In euros)*	*(In euros)*	*(In euros)*
A. DETAILED INFORMATION ON EACH STAKE OWED THAT EXCEEDS 1% OF THE COMPANY'S CAPITAL											

1. Over 50%-owned subsidiaries											
Engineering System International	France	1,020,000	3,643,963	100,0	458	458	(866,974)		16,053,573	(193,884)	
STRACO	France	498,768	2,954,248	97,7	1,789	1,789	(550,000)		7,616	26,862	
Nihon ESI K.K.	Japan	75,614	2,305,002	97,0	75	75			24,04 403	1,122,898	
Hankook ESI Co., Ltd.	South Korea	1,118,611	(1,505,576)	98,8	941	941			6,788,069	(691,127)	
ESI North America, Inc.	United States	0	(5,826,575)	100,0	3 726	3 726	8,882,784		24,294,391	3,288,053	
ESI Group Hispania s.l.	Spain	100,000	(932,013)	100,0	100	100	1,019,737		3,880,498	(55,111)	
Mecas ESI s.r.o.	Czech Republic	14,801	421,128	95,0	912	912	(616,123)		6,952,407	(81,217)	
ESI UK LIMITED	United Kingdom	130,873	(277,027)	100,0	164	164			4,424,787	357,256	
ESI US R&D, Inc. (1)	United States	233,702	567,807	74,0	111	111			9,611,827	324,777	
Calcom ESI SA	Switzerland	89,734	199,341	98,5	2,678	2,678			3,893,557	79,829	
Zhong Guo Co., Ltd	China	0	249,989	100,0	195	0			0	(11,040)	
ESI Software (India) Private Ltd	India	1,349	2,732,401	100,0	2	2			8,395,994	587,841	
HONG KONG ESI CO., Limited	China	1,174	(856,836)	100,0	120	0	1,029,128		0	(359)	
ESI-ATE HOLDINGS LIMITED	China	11,784	(766,288)	100,0	1 793	0	2,080,032		0	(234,127)	
ESI Italia s.r.l.	Italy	500,000	154,753	90,0	656	656			5,396,029	327,360	
ESI SOUTH AMERICA COMÉRCIO E SERVIÇOS DE INFORMÁTICA, LTDA	Brazil	4,515	90,388	95,0	6	6			696,746	20,943	
ESI Services TUNISIA	Tunisia	95,307	562,929	80,5	136	136			746,034	125,051	
ESI Group Beijing Co., Ltd	China	696,552	95,703	100,0	543	543			3,675,955	328,128	
ESI Software Germany GmbH	Germany	516,594	3,287,988	95,5	10,214	10,214			7,959,689	1,449,954	
Efield AB	Sweden	10,697	447,265	100,0	576	576	(432,292)		1,034,602	62,588	
OPENCFD LIMITED	United Kingdom	1	904,791	100,0	2,514	2,514	(857,218)		1,234,902	(178,142)	
CyDesign Labs, Inc.	United States	1,412,392	(460,206)	99,1	2,188	1,278	125,606		207,023	50,031	
ESI Services Vietnam Co., Ltd	Vietnam	87,636	5,896	100,0	138	138			133,662	888	
CIVITEC	France	1,125,000	(247,244)	80,0	962	962	(639,041)		162,800	(249,468)	
ITI GmbH	Germany	25,565	571,920	96,0	18,388	18,388			326,620	(92,534)	
2. 10–50% owned subsidiaries											
ESI US Holding, Inc.	United States	708,978	(581,987)	49,0	796	796			0	0	
AVIC	China	1,391,895	250,949	45,0	663	663			279,771	279,771	
(1) ESI US R&D, Inc.: owned directly = 49%; owned indirectly via US Holdings = 25%.											

5.2.4. Statutory auditors' report on the financial statements

Year ended January 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended January 31, 2016, on:

- The audit of the accompanying financial statements of ESI Group;
- The justification of our assessments;
- The specific verifications and information required by law.

These financial statements have been approved by your Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the company as at January 31, 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

<u>Investments</u>

Investments are valued in accordance with the valuation methods described in note B.3 to the financial statements. Our work consisted in assessing the data and assumptions underlying these book value estimates. We made sure of the reasonableness of these estimates.

<u>Development costs</u>

As part of our assessments of the accounting principles followed by your company, we reviewed the criteria used for capitalizing and amortizing development expense and measuring the recoverable amount. We ensured that note B.1 to the financial statements gives appropriate information.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the board of directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code (Code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Paris-La Défense, May 19, 2016

The statutory auditors

French original signed by

PricewaterhouseCoopers Audit	ERNST & YOUNG Audit
Thierry Charron	Frédéric Martineau

6 RESOLUTIONS SUBMITTED FOR APPROVAL BY THE GENERAL MEETING

6.1. Ordinary General Meeting

First resolution: Approval of the annual financial statements for the fiscal year

The General Meeting, having reviewed the Management report of the Board of Directors, the Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management, the reports of the statutory auditors and the annual financial statements for the fiscal year ended January 31, 2016, approves the financial statements and balance sheet, as presented, showing a profit of EUR 4,035,722.76.

It approves the transactions reflected in said financial statements or summarized in said reports.

The General Meeting also approves the total expenses and charges not deductible from profits subject to income tax, equal to EUR 170,992.

Second resolution: Approval of the consolidated financial statements for the fiscal year

The General Meeting, having reviewed the Management report of the Board of Directors, the Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management and the reports of the statutory auditors and the consolidated financial statements as at January 31, 2016, approves these financial statements as presented.

It therefore approves the transactions reflected in the consolidated financial statements or summarized in the aforementioned reports.

Third resolution: Allocation of profits

The General Meeting, acknowledging that the net profit for the year ended January 31, 2016 stands at EUR 4,035,722.76, decides, at the Board of Directors' recommendation, to allocate this profit as follows:

Origin:

- Net profit for the year: EUR 4,035,722.76;
- Profit carried forward: EUR 30,236,838.94;
- Total to be allocated: EUR 34,272,561.70.

Allocated as follows:

- EUR 144,753.48 to the legal reserve;
- EUR 34,127,808.22 to profit carried forward.

Following this allocation, the balance of the legal reserve stands at EUR 1,786,521.60.

The General Meeting notes that no dividends have been paid out for the past three fiscal years.

Fourth resolution: Approval of the agreements referred to in Article L.225-38 of the French Commercial Code

The General Meeting, having reviewed the special report by the statutory auditors on the agreements referred to in Article L. 225-38 of the French Commercial Code, acknowledges the conclusions of said report and approves the agreements mentioned therein.

Fifth resolution: Reappointment of Mr Vincent Chaillou as Director

The General Meeting, having reviewed the Report of the Board of Directors, and noting that the term of office of Mr Vincent Chaillou expires at the end of the General Meeting, resolves to renew his directorship for a term of four years, expiring at the end of the General Meeting to be convened to approve the financial statements for the year ending January 31, 2020.

Sixth resolution: Appointment of a new Director

The General Meeting, having reviewed the Report of the Board of Directors, resolves to appoint Mr Yves de Balmann as Director, for a term of four years. This term will expire at the end of the General Meet to be convened in 2020 to approve the financial statements for the year ending January 31, 2020.

Seventh resolution: Authorization to be granted to the Board of Directors for the Company to buy back its own shares

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors in accordance with Article L. 225-209 and subsequent of the French Commercial Code:

1. Terminates the authorization granted by the seventh resolution of the Ordinary and Extraordinary General Meeting of July 22, 2015, which authorized the Board to trade in its own shares;
2. Authorizes the Board of Directors to purchase the Company's shares, not to exceed 10% of its capital, for a period of 18 months beginning on July 21, 2016, in order to:
   a. Stimulate the secondary market or the liquidity of ESI Group shares through a liquidity contract signed with an investment service provider and compliant with the AMAFI's code of ethics dated September 23, 2008 and approved by the French Financial Markets Authority (AMF);
   b. Fulfill its share issue obligations, in accordance with the terms and conditions set forth bylaw, undertaken as part of the following:
      - Plans granting stock options for the purchase of existing shares by the Group's employees or corporate officers;
      - Employee profit-sharing plans under which these shares would be granted to employees and/or corporate officers;
      - Free share grants to the Group's employees and corporate officers;
      - Shares provided upon exercise of the rights attached to securities giving access to shares by any means, whether immediately or in the future, under the conditions set forth by the AMF and at any time deemed appropriate by the Board of Directors;
   c. Retain shares and subsequently use them in exchange or as payment for future business acquisitions;
   d. Cancel shares by a reduction in share capital.
3. Decides that the purchase price per share may not exceed EUR 40.

Shares may be purchased or retained at the Board of Directors' discretion by any means by trading on the market or off the market, on an over-the-counter market, on one or more occasions. All shares purchased under the authorized share buyback program may be acquired in the form of blocks of shares. Such transactions may be carried out at any time, including during public offering periods, in accordance with the regulations in force.

The Company may not, at any time, hold, either directly or via an intermediary, more than 10% of the total shares making up its own share capital.

The Company will not be allowed to pay out more than EUR 6,500,000 under the share buyback program.

The Board of Directors shall inform Shareholders of any purchases or sales carried out pursuant to this authorization in its management report.

The General Meeting grants full authority to the Board of Directors to:

- Publish, on the website of the French Financial Markets Authority (AMF), a detailed notice explaining this share buyback program authorized by the General Meeting prior to using this authorization;
- Place any and all stock market orders and enter into any and all agreements, in order to record share purchases and sales;
- Make any and all disclosures to the stock market regulators, to carry out any other formalities and, in general, to do whatever is necessary.

Eighth resolution: Determination of the compensation paid to the members of the Board of Directors (Directors' fees)

The General Meeting decides to set the compensation paid to the members of the Board of Directors in the form of Directors' fees at EUR 160,000 for the 2016 fiscal year.

The Board will freely distribute this amount among its members.

6.2. Extraordinary General Meeting

Ninth resolution: Authorization to the Board of Directors to reduce the share capital by cancelling shares purchased by the Company under Article L. 225-209 of the French Commercial Code

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors and the special audit report:

1. Authorizes the Board of Directors, with the option to sub-delegate, within the legal and regulatory conditions as per Article L. 225-209 of the French Commercial Code, to:
   - Cancel, at its sole discretion, on one or more occasions,shares purchased by the Company on the basis of the authorization given by the Ordinary General Meeting in the seventh resolution (provided that this resolution is adopted) or any similar resolutions adopted by previous General Meetings, within the limit of 10% of its share capital, this percentage applying to the share capital as subsequently adjusted following transactions after this General Meeting, per twenty-four (24) months period; and
   - Conduct, for the same amount, a reduction in share capital by cancelling shares.
2. Gives to the Board of Directors all powers, with the option to sub-delegate, within the legal and regulatory conditions as per Article L. 225-209 of the French Commercial Code, to:
   - Determine the final amount of reduction in the share capital within the limits provided by the law and by this resolution;
   - Set the modalities for said operation and acknowledge its completion;
   - Allocate the difference between the book value of the shares cancelled and their par to all reserves and available share premiums at the choice of the Board;
   - Carry out all deeds, formalities, or declarations in order to record and finalize the reductions in share capital that may be conducted in accordance with this authorization and that would have the result of modifying statutes.

The General Meeting gives this authorization for a term of twenty-six (26) months as from this General meeting.

Tenth resolution: Authorization to the Board of Directors to grant free shares to eligible employees and executive corporate officers of the Company and of its affiliated companies

The General Meeting, deliberating in accordance with th quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors and the special audit report, and in accordance with Article L. 225-197-1 and subsequent articles of the French Commercial Code:

1. Authorizes the Board of Directors to make, in one or more occasions, to eligible employees and executive corporate officers of the Company or its affiliated entities in accordance with Article L.225-197-2 of the French Commercial Code, free grants of existing shares or shares to be issued, within the limits of 60,000 shares, representing 1% of the share capital of the Company as of the date of this authorization.

   Granting of shares to their beneficiaries shall be final and binding after a vesting period set by the Board of Directors.

   The Board of Directors will be able to set, in accordance with the provisions of Article L. 225-197-1 of the French Commercial Code, the duration of vesting and holding periods, provided that the time condition respects a minimum vesting period of at least one year and the total duration of both vesting and holding periods is at least two years.
2. Decides, notwithstanding the provisions of the paragraph hereinafter that the final grant of free shares and the right to freely sell said shares shall nevertheless be vested in the event of disability of said beneficiary in accordance with the provisions of Article L. 225-197-1 of the French Commercial Code.

   The Board of Directors shall grant free shares and shall decide in particular:
   - The identities of beneficiaries of granted shares;
   - The conditions and, if necessary, the criteria for granting shares.

The Board of Directors shall have the necessary powers to implement this authorization, within the conditions previously described herein and within the limits authorized by applicable texts, and particularly to set, if necessary, the conditions for issuance, to record any resulting increases in share capital, to amend the articles of association, and, in general, take all necessary actions.

Each year, the Board of Directors shall inform the General Meeting of operations conducted within the framework of this resolution, within legal and regulatory conditions, in particular Article L. 225-197-4 of the French Commercial Code.

The General Meeting duly notes that this authorization entails the waiver by the Shareholders of their preferential subscription right to purchase ordinary shares of the Company which may be issued for the purposes of final grants of free shares, and of all rights to ordinary shares granted freely on the basis of this authorization.

This authorization shall remain in force for a duration of thirty-eight (38) months from the date of this General Meeting.

This authorization terminates the previous authorization given by the Extraordinary General Meeting of July 23, 2013, in the fifteenth resolution.

Eleventh resolution: Authorization to the Board of Directors to grant stock purchase options

The Extraordinary General Meeting, having reviewed the Report of the Board of Directors and the special report of the statutory auditors, authorizes the Board of Directors to grant to the corporate executives defined by law and the employees of the Company and its affiliates, as defined under Article L. 225-180-III of the French Commercial Code, options for the purchase of new Company shares to be issued through the Company's capital increase operations, not to exceed the number of shares representing 5% of the capital as of the date of this Meeting, i.e. 297,753 shares.

This authorization, which may be exercised on one or more occasions, is granted for a term of thirty-eight months from the date of this General Meeting.

The subscription price of shares will be determined the date on which the options are granted by the Board of Directors. This price shall be no less than 80% of the average share price from the last 20 trading days preceding the date on which the options are granted.

This price may not be subsequently modified, except where necessary to protect the interests of beneficiaries of options pursuant to Article L. 225-181 of the French Commercial Code.

No option may be granted less than 20 twenty days following an ex-coupon date (whereby the option entitled the holder to a dividend or to participate in a share issue), nor within a period of ten trading days preceding and following the date on which the consolidated financial statements, or, in the absence thereof, the annual financial statements, are published, nor within the period between the date on which the Company's corporate bodies became aware of information that, if it were disclosed to the public, would have a material impact on the Company's share price and the date ten trading days after the date on which said information is made public.

Options must be exercised no later than eight years after the date on which they are granted; however, the Board of Directors may nonetheless set a shorter expiration date for all or part of the beneficiaries.

The Board of Directors may prohibit the immediate resale of the shares subscribed; however, the period of time during which beneficiaries are required to retain shares may not exceed three years from the date on which the option is exercised.

The General Assembly acknowledges that this authorization entails the Shareholders' express waiver, for the benefit of beneficiaries of the options, of the Shareholders' pre-emptive subscription rights to shares that will be issued as options are exercised.

The General Meeting grants full authority to the Board of Director to decide all other terms and conditions regarding the granting and exercising of options, within legal and regulatory limits, and specifically authorizes the Board of Directors to:

- Grant options to designated individuals;
- Determine the expiration date of the options, within the limits set forth above;
- Set forth requirements governing the granting and exercising of options; the Board of Directors may (a) restrict, limit or prohibit (i) the exercise of options or (ii) the sale or conversion to bearer shares of the shares obtained through the exercise of options, during certain periods or within a certain period following certain events and (b) bring forward exercise dates or periods for the options, extend the exercisable nature of the options or modify dates or periods within which the shares obtained by exercise of the options may not be transferred or converted to bearer shares;
- Establish, where applicable, a period during which shares arising from the exercise of options may not be sold or converted to bearer shares; such lock-up period may not exceed three years from the date on which the option was exercised;
- Adjust the number and the price of the shares that may be obtained by exercising options, where applicable, in keeping with the legal and regulatory requirements in force.

The increase in capital resulting from the exercise of share subscription options will be final and definite as of the declaration of the exercise of the option(s) accompanied by the corresponding payment made in cash or by offsetting receivables with the Company.

At its first meeting following the end of each fiscal year, the Board of Directors will record the total shares issued during the course of the year, where applicable, amend the articles of association as necessary and perform any public disclosure formalities.

The General Meeting resolves that this authorization terminates as of this date the authorization granted by the Combined General Meeting held July 23, 2013, in its 13th resolution.

6.3. Joint decisions

Twelfth resolution: Powers to carry out formalities

The Meeting grants full powers to the bearer of an original, excerpt or copy of the minutes of this Meeting to carry out all legal and administrative formalities, as well as all filing and publication requirements set forth by law in force.

7 DOCUMENTS AVAILABLE TO THE PUBLIC

All the corporate documents related to the Company can be consulted at the Company's headquarters, located at 100-102, avenue de Suffren in Paris (75015), France.

ESI Group keeps its Shareholders regularly informed on its business activities through press releases published in the economic and financial media, primarily online, as well as through reports prepared for the General Meeting. These reports are available to any shareholder upon simple request.

ESI Group also works continuously to boost its communication efforts by improving its company website, www.esi-group.com. The website provides both in French and English a detailed description of the Group and its business activities, as well as financial information for shareholders and investors, including all mandatory information required under the European Transparency Directive. It provides access to reports, registration documents, Shareholders letters and guide, annual and interim consolidated financial statements, press releases, articles of association and stock prices on the Paris stock exchange.

In keeping with the Transparency Directive, adopted in 2007, ESI Group has decided to use a reporting service licensed by the French Financial Markets Authority (AMF). This allows to provide proof of compliance with legal reporting requirements.

Lastly, this registration document is available in a paper version upon simple request sent to:

ESI Group Corentine Lemarchand 100-102, avenue de Suffren 75015 Paris investors@esi-group.com	**NewCap** Louis-Victor Delouvrier 21, place de la Madeleine 75008 Paris esi@newcap.fr

7.1. Press releases and financial announcements

7.1.1. Press releases and financial announcements in French

Avril 2016	– Résultats annuels 2015 – ESI présente ProCAST, son logiciel phare de simulation de fonderie, à CastExpo 2016
Mars 2016	– Formalisation d'une démarche RSE en accord avec les valeurs d'ESI Group – La Directrice Générale d'ESI en Chine, Zhimin Cui, est élue l'une des « 10 femmes les plus importantes de l'économie chinoise » – Chiffre d'affaires annuel 2015 : + 12,3 % – Renforcement du Comité Exécutif en ligne avec la stratégie du Groupe – ESI propose de gagner encore en temps et en productivité avec la nouvelle version de sa plateforme multidomaines Visual-Environment 11.5
Fév. 2016	– Acquisition de Mineset Inc., spécialiste de l'analyse visuelle *big data* et de l'apprentissage automatique (« *machine learning* »)
Janv. 2016	– ESI lance la nouvelle version de son logiciel phare : Virtual Performance Solution 2015 – ESI et JMDA proposent du Prototypage Virtuel de Sièges Auto pour Enfant – Bilan annuel du contrat de liquidité – Acquisition de la société ITI GmbH, un leader mondial de la simulation réaliste des systèmes mécatroniques et multidomaines – L'IAO désormais disponible à la demande avec ESI Cloud
Déc. 2015	– Calendrier de communication financière 2016 – Le nouveau Centre de Calcul Européen d'ESI bénéficie des dernières solutions *data center* de Legrand
Nov. 2015	– Chiffre d'affaires du 3e trimestre 2015 : + 10,3 % – ESI et DAHER présentent le Prototypage Virtuel Immersif à la Conférence numérique franco-allemande à Paris – ESI lance la version 2015 de PAM-STAMP – Signature d'un nouveau crédit syndiqué de 49 millions d'euros
Oct. 2015	– ESI Group distingué au classement GAÏA 2015 pour la qualité de ses fondamentaux extra-financiers – ESI organise la 3e conférence utilisateurs OpenFOAM du 19 au 21 octobre à Stuttgart, en Allemagne
Sept. 2015	– Mise à disposition du rapport financier semestriel 2015 – Descriptif du programme de rachat d'actions – Résultats du 1er semestre 2015 – ESI annonce ses prochains Forums Utilisateurs en Allemagne, en République tchèque et au Japon
Juillet 2015	– ESI lance ESI-Xplorer, solution de modélisation des systèmes, intégrée dans la plateforme Visual-Environment – Bilan semestriel du contrat de liquidité – Assemblée Générale Mixte du 22 juillet 2015

Juin 2015	– ESI sera présent au 10e Forum Teratec pour soutenir le calcul haute performance – ESI présente sa Solution Logicielle ProCAST 2015 au Salon GIFA – ESI présente ses Solutions de Prototypage Virtuel au Salon international de l'aéronautique et de l'espace de Paris – Le Bourget – Chiffre d'affaires du 1er trimestre 2015 – Le Prototypage Virtuel d'ESI contribue au projet « Sièges passagers du futur » mené par Zodiac Seats France
Mai 2015	– Mise à disposition du document de référence 2014 – ESI Group fait l'acquisition du logiciel Presto – ESI Group réaffirme son éligibilité au PEA-PME
Avril 2015	– Résultats annuels 2014 – Acquisition des actifs technologiques de Ciespace pour déployer l'IAO sur le *Cloud* – Les solutions logicielles d'ESI au service du domaine biomédical – ESI Group fait l'acquisition des actifs de PicViz Labs, le spécialiste de l'analyse prévisionnelle de *big data* grâce à une capacité de visualisation avancée
Mars 2015	– ESI Group fait l'acquisition de CIVITEC – Chiffre d'affaires annuel 2014 : Croissance de 2,5 % à taux de change constants – ESI présente sa Solution de Simulation des Composites 2015 au JEC Europe – ESI Group poursuit avec succès sa certification mondiale ISO 9001
Fév. 2015	– Nomination de Peter Schmitt au poste de *Executive Vice President* Ventes et Marketing opérationnel d'ESI Group
Janv. 2015	– ESI lance Virtual Seat Solution, une solution logicielle unique, dédiée au prototypage de sièges – ESI lance la nouvelle version de VA One – ESI annonce la nouvelle version de Virtual Performance Solution

7.1.2. Press releases and financial announcements in English

April 2016	– 2015 annual results – ESI Presents Leading Casting Simulation Software ProCAST at CastExpo 2016
March 2016	– Formalization of a CSR approach in line with ESI Group's values – ESI China's Chief Operating Officer, Zhimin Cui, Awarded as One of the "Top 10 Ladies in the Chinese Economy" – 2015 annual sales up 12.3% – Strengthening of the Group Executive Committee, in accordance with the Group's strategy – ESI unleashes further productivity and time gains with the latest release of its multi-domain platform Visual-Environment 11.5
Feb. 2016	– Acquisition of Mineset Inc., a big data visual analytics and machine learning specialist
Jan. 2016	– ESI releases the newest version of flagship software Virtual Performance Solution 2015 – ESI and JMDA team up to enable the Virtual Prototyping of Child Car Seats – Acquisition of ITI GmbH, a global leader in the realistic simulation of mechatronic and multi-domain systems – CAE Now Available On Demand with ESI Cloud
Dec. 2015	– 2016 Financial communication agenda – ESI's new European HPC center benefits from the latest datacenter infrastructures by Legrand
Nov. 2015	– Sales for the 3rd quarter of 2015 up 10.3% – ESI and DAHER showcase Immersive Virtual Prototyping at the French-German Digital Conference in Paris – ESI releases PAM-STAMP 2015 – Signature of a new syndicated loan amounting to €49 million
Oct. 2015	– ESI Group rewarded at the GAÏA 2015 ranking for the quality of its non-financial fundamentals – ESI's 3rd OpenFOAM User Conference will take place October 19-21 in Stuttgart, Germany
Sept. 2015	– Results for the 1st half of 2015 – ESI announces its upcoming User Forums in Germany, Czech Republic and Japan
July 2015	– ESI launches ESI-Xplorer, Systems Modeling Solution Integrated into its Visual-Environment platform
June 2015	– ESI attends the 10th Teratec Forum for the Development of High Performance Computing – ESI presents its Casting Simulation Suite ProCAST 2015 at GIFA – ESI presents its Virtual Prototyping solutions at the International Paris Air Show – Revenue for the 1st quarter of 2015 – ESI's Virtual Prototyping contributes to the project "Passenger Seats of the Future" led by Zodiac Seats France
May 2015	– ESI Group acquires Presto software
April 2015	– 2014 Annual results – ESI Group acquires Ciespace's technology assets for Cloud based CAE modeling – ESI Software Solutions Benefit the Biomedical Sector – ESI Group to acquire the assets of PicViz Labs, specialist in big data-based predictive analysis through advanced visualization
March 2015	– ESI Group to acquire CIVITEC – 2014 annual sales : growth of 2.5% at constant currency – ESI presents its Composites Simulation Solution 2015 at JEC Europe – ESI Group successfully pursues global ISO 9001 certification
Feb. 2015	– Dr. Peter Schmitt is appointed Executive Vice President, Sales & Operational Marketing of ESI Group
Jan. 2015	– ESI releases Virtual Seat Solution, a unique software solution dedicated to seat prototyping

	– ESI releases the latest version of VA One – ESI releases its newest version of Virtual Performance Solution

7.1.3. Information filed with the registries of the Paris Commercial Court

- Change of private addresses of Mr Alain de Rouvray, Mr Vincent Chaillou and Ms Cristel de Rouvray.
- Death of Mr Jacques Dubois, Director, occurred on August 21, 2015 and acknowledged by the Board of Director's meeting of December 16, 2015 and decision to not appoint a new Director to replace the deceased.
- Increase of the Company's capital from EUR 17,845,266 to EUR 17,865,216,duly noted by the Board of Directors at its meeting of February 18, 2016 following the exercise of options in fiscal year 2015.

7.2. Information made available to the shareholders prior to the Ordinary General Meeting

Agenda: Decisions falling within the jurisdiction of the Annual General Meeting: – Approval of the annual financial statements for the fiscal year ended January 31, 2016 –Approval of the consolidated financial statements for the fiscal year ended January 31, 2016 – Allocation of net profit for the year – Approval of the agreements referred to in Article L. 225-38 of the French Commercial Code – Reappointment of Mr Vincent Chaillou as Director – Appointment of a new Director – Authorization to be granted to the Board of Directors for the Company to purchase its own shares – Determination of the compensation paid to members of the Board of Directors (Directors' fees) Decisions falling within the competence of the Extraordinary General Meeting: – Authorization given to the Board of Directors in order to reduce share capital by eliminating shares acquired by the Company within the framework of Article L. 225-209 of the French Commercial Code – Authorization to confer upon the Board of Directors the power to grant free shares to eligible employees and representatives of the Company and of its associated companies – Authorization to be granted to the Board of Directors to award stock purchase options Joint decisions: – Powers for formalities.
Management report including the following notes: –Five-year financial summary –Table summarizing powers delegated to the Board of Directors with regard to capital increases
Consolidated financial statements and notes
Separate financial statements and notes
Statutory auditors' report on the consolidated financial statements and annual financial statements
Statutory auditors' statement on total compensation paid
Special report on regulated agreements with related parties
Statutory auditors' report on the Chairman's report on the Board of Directors' operational procedures, internal control and risk management procedures
Board of Directors' special report on free share awards granted during the fiscal year
Chairman's report on corporate governance, internal control and risk management procedures
Board of Directors' report to the Extraordinary General Meeting
Draft resolutions proposed to the General Meeting
List of ESI Group's registered shareholders
Composition of the Board of Directors
Mail-in vote form
ESI Group's articles of association as at February 18, 2016

8 CROSS-REFERENCE TABLE

8.1. Information required under Regulation (EC) No 809/2004

Pursuant to Article 28 of European Commission Regulation (EC) No 809/2004 of April 29, 2004, the following information is incorporated by reference in this registration document:

- The separate financial statements, consolidated financial statements, and the report from the statutory auditors for the fiscal year ended January 31, 2015, which appear on pages 65–108 of the registration document filed with the French Financial Markets Authority (AMF) on May 20, 2015 under number D.15-0528;
- The separate financial statements, consolidated financial statements, and the report from the statutory auditors for the fiscal year ended January 31, 2014, which appear on pages 65–108 of the registration document filed with the AMF on May 30, 2014 under number D.14-0587.

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2. Statutory auditors	**1.2.**
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2.2. Statutory auditors who resigned, were removed or were not reappointed during the period in question	N/A
3. Selected financial information	**2.3.**
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4. Risk factors	**2.5.**
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6.5. Basis for any statements made by the issuer regarding its competitive position	2.1.2.
7. Organization chart	**2.2.**
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19. Related party transactions	**N/A**
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Information	Chapters
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23. Information provided by third parties, statements made by experts and declarations of interests	**N/A**
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8.2. Information required in the annual financial report

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STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT	1.
– Management report	4.
– Analysis of the performance, financial situation and risks of the parent company and the Group	4.
– Information regarding the structure and ownership of share capital and factors that may have an impact in the event of a public offering	4.
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Shareholders relations

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