get it right®

2016 REGISTRATION DOCUMENT

Including the financial annual report

Pioneer and leader in Virtual Prototyping

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ESI Group

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

REGISTRATION DOCUMENT

INCLUDING THE FINANCIAL ANNUAL REPORT

Fiscal year 2016 (ended January 31, 2017)

AMF | AUTORITÉ DES MARCHÉS FINANCIERS

This Registration Document was filed with the French Financial Markets Authority (AMF) on Friday, May 19, 2017 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 ac-companied by a memorandum approved by the AMF. The is-suer 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 19, 2017, in accordance with Articles 212-13 of the AMF General Regulation.
Only the French version of the Document de Référence is legally binding.

ESI GROUP IN A NUTSHELL

Pioneer and world-leading provider in Virtual Prototyping that takes into account the physics of materials

OUR MISSION

Deliver Virtual Prototyping solutions to boost innovation and improve industrial product development

OUR VISION

Be the leader in Virtual Prototyping thanks to a unique knowledge in materials physics that brings products to life

REVENUES **GROWTH**

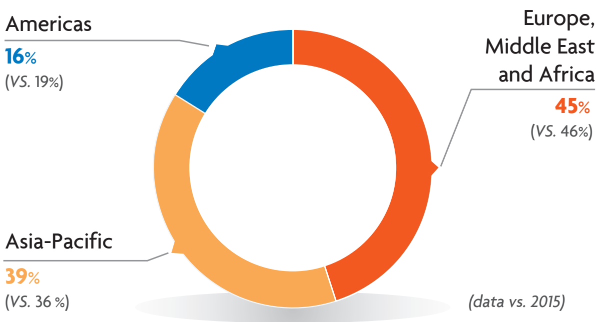
Revenues : +13%
(in €m)

Revenues distribution per activity

77%
LICENSES

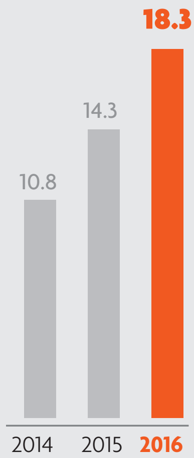
23%
SERVICES

Revenues distribution per area *(in €m)*

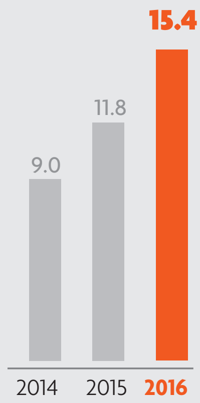


IMPROVEMENT IN PROFITABILITY

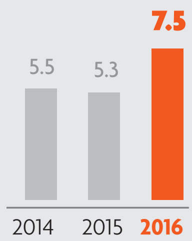
EBITDA: +28%
(in €m)



Current Operating Profit: +30%
(in €m)

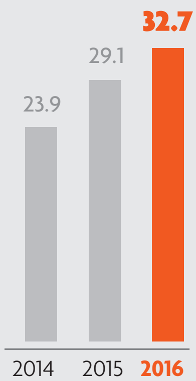


Attributable Net Profit: +41%
(in €m)



AN **INNOVATIVE AND MULTISECTORAL** OFFER

R&D investments evolution: +12%
(in €m)

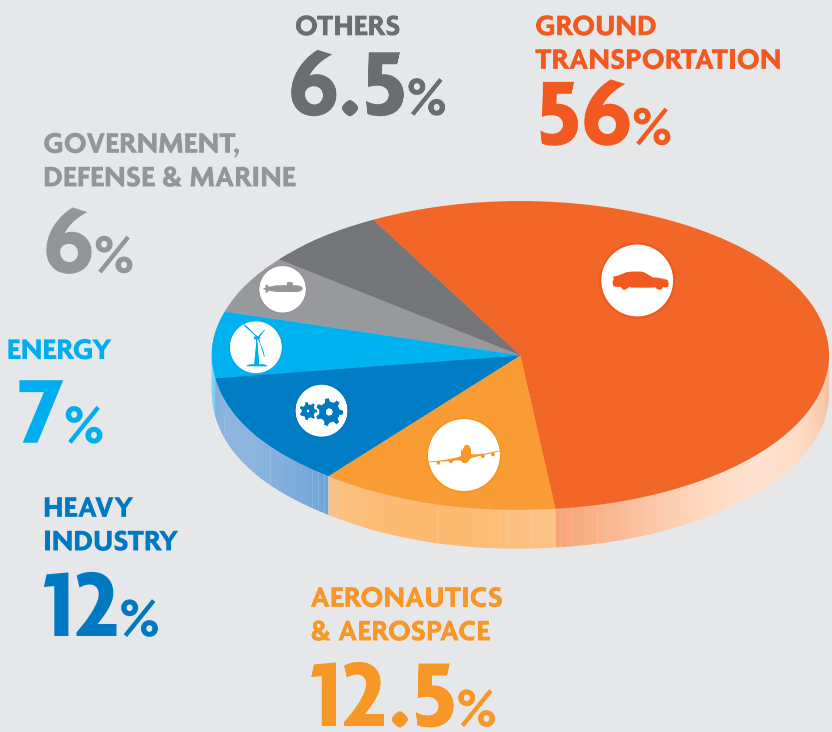


Expertise based on 40 years of R&D

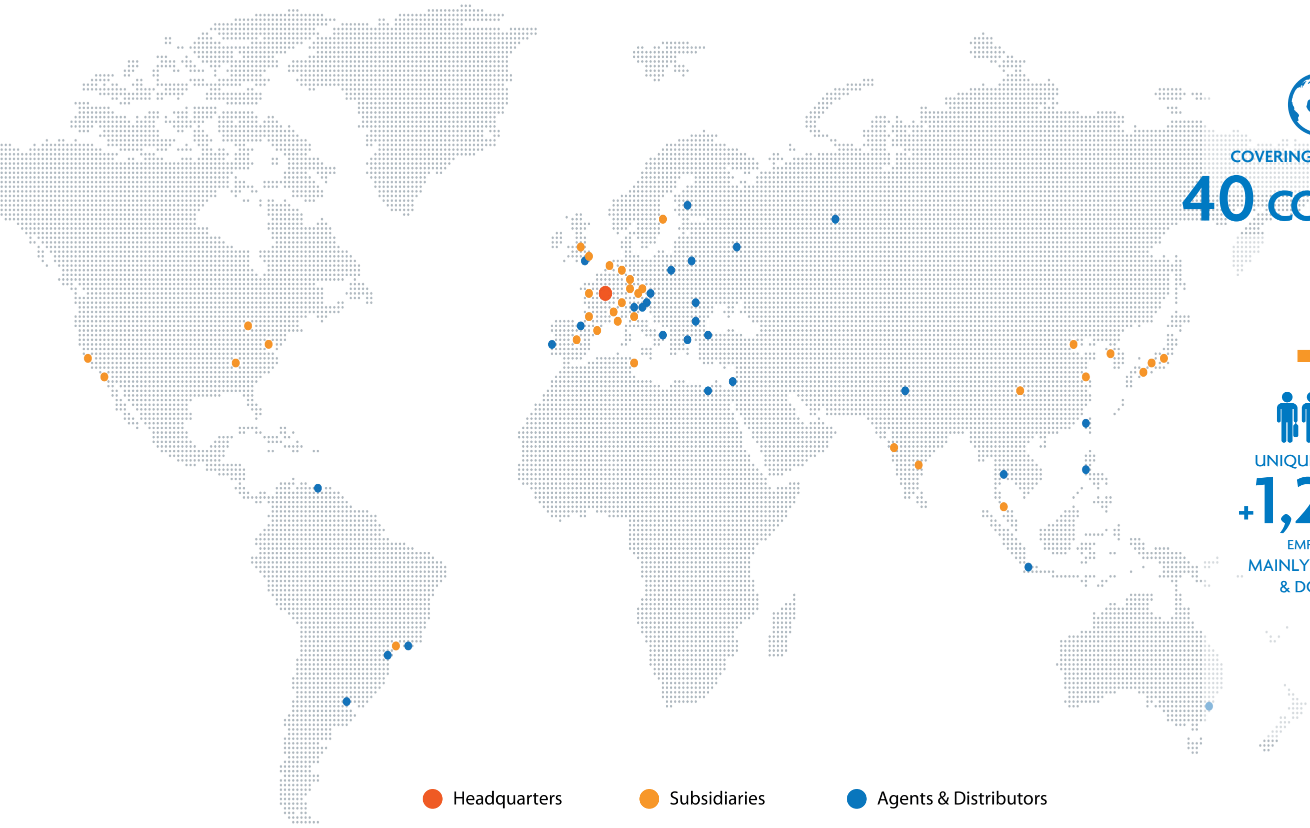
30.2%

R&D investments/
Licenses revenues

Industrial diversification
(% of booking orders)



A **GLOBAL** COMPANY



COVERING MORE THAN
40 COUNTRIES

UNIQUE EXPERTISE
+1,200
EMPLOYEES
MAINLY ENGINEERS
& DOCTORS

A **RESPONSIBLE** COMPANY

Gaïa-Index

AWARDED FIRST PLACE OF GAÏA INDEX for companies under €150m of revenues.

IINTEGRATED IN GAÏA INDEX which distinguished the 70 best companies with social, societal, environmental and governance practices.

EMPLOYEES

Being a committed employer

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

CUSTOMERS

Being an outstanding partner for our customers

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

esi get it right®

CIVIL SOCIETY

Serve civil society

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

ENVIRO-NMENT

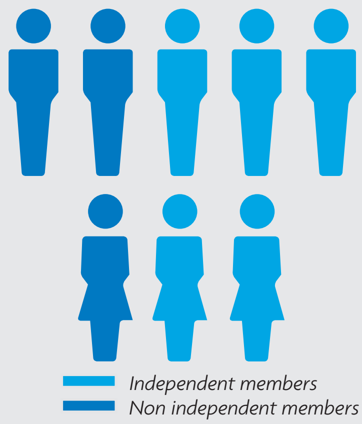
Being an environ-mentally friendly player

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

A **WELL-BALANCED** CORPORATE GOVERNANCE

A Board of Directors
made up of **8 MEMBERS** of which

5 INDEPENDENT MEMBERS
and **3 WOMEN**



4 SPECIALIZED COMMITTEES

1. Strategic Committee
2. Audit Committee
3. Compensation, Nomination and Governance Committee
4. Technology and Marketing Committee

STOCK MARKET INFORMATION *(as of end of April 2017)*

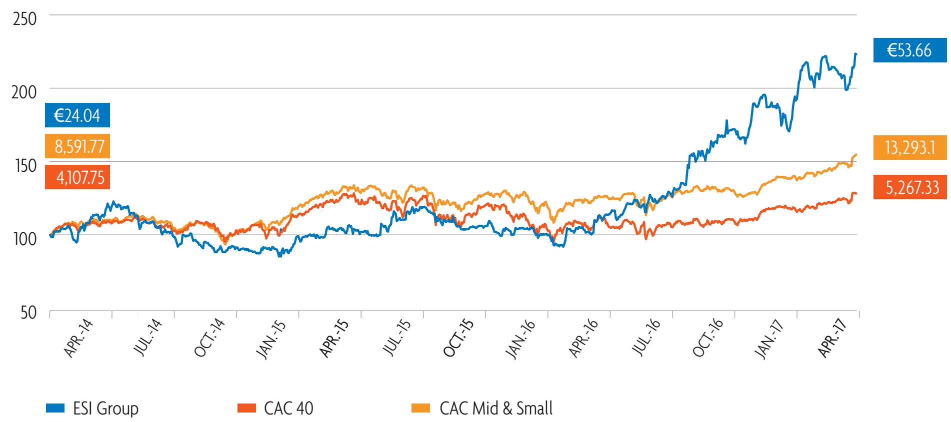
€53.66

STOCK PRICE

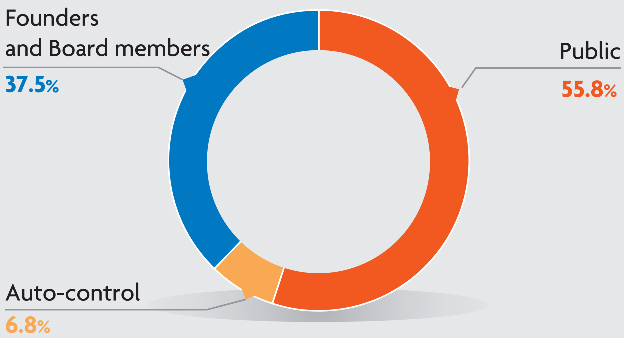
€320M

MARKET CAPITALIZATION

Stock price evolution
between february 2014 and april 2017 (basis 100)



Share capital breakdown
as of end of April 2017



ESI GROUP

Euronext Paris
Compartment B
ISIN: FR0004110310
Quote: ESI Group
Mnemonic: ESI
Reuters: ESIG.PA
Bloomberg: ESI:FP

1 THE GROUP

Throughout this registration document, the terms "the Group," "ESI Group" and "ESI" refer to ESI Group, the parent company, as well as all affiliates.

ESI Group is a leading innovator in Virtual Prototyping software and services.
Specialist in material physics, ESI Group has developed a unique proficiency in helping industrial manufacturers replace physical prototypes by virtual ones, allowing them to virtually manufacture, test and pre-certify their future products. Coupled with latest-generation technologies, Virtual Prototyping is now anchored in the wider concept of the Product Performance Lifecycle (PPL), which addresses products' operational performance throughout its entire lifecycle, from launch to disposal. The creation of Hybrid Twins leveraging simulation, physics, and data analytics, enables manufacturers to deliver smarter products, particularly using connected objects, to predict their performance and to anticipate maintenance needs in the context of the transition to the factory of the future.

1.1. Activities, strategy, and markets

1.1.1. Main activities

ESI Group has developed a suite of coherent industry-oriented applications to realistically simulate a product's behavior during testing, fine-tune fabrication and assembly processes in view of desired product performance, and evaluate the impact of the environment on the use of these products. These applications represent a unique, open, collaborative, and multi-sector Virtual Prototyping solution to gradually eliminate use of physical components and sub-assembly prototypes during the product development phase by letting manufacturers make decisions based on a "living" virtual prototype. Innovative visualization technologies such as IC.IDO and the availability of the Virtual Prototyping chain in Cloud/SaaS mode also considerably enhance the collaborative potential of ESI Group solutions while drastically reducing acquisition and ownership costs for companies.
Thanks to the recently-acquired technological bricks, particularly the acquisition of ITI GmbH in January 2016, the Group boasts a prominent presence in the field of 0D-1D system simulation. Its expertise, which is acknowledged by major global companies, allows for direct access to functional features of an industrial product and makes it possible to represent interactions and operation 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 makes it possible to present and experience ESI Group's solutions in an interactive space and enables real-time decision-making in an immersive virtual environment. This enhanced offer provides complete control over the entire lifecycle of an industrial product, including modeling of potential evolutions during its useful life, from product commissioning to its operational withdrawal, as well as accounting for flaws, wear and tear, maintenance procedures, and running in of assisted operation. The innovative virtual prototype can now become agile and intelligent to support industrial manufacturers in their transition to the age of factories of the future and smart digital products.
The Group has two main activities: the edition and distribution of software and consulting services related to its software products.

1.1.1.1. Software Editor/Distributor (Licensing activity)

License Edition/Distribution is the Group's main activity, accounting for 77% of revenue in 2016. Software is marketed in the form of proprietary user licenses based for the most part on an annual leasing system that by nature generates highly recurring revenue.

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

Products are distributed worldwide. Distribution subsidiaries directly manage more than 90% of license sales, the rest being entrusted to a network of third-party distributors and agents. The two distribution networks - direct and indirect - are complementary.

The License activity may be broken down in two ways:

- By contract type:
  - Annual license – user license contract renewable annually and including maintenance services – this type of contract is predominant – or;
  - Perpetual license – long-term license contract (paid-up licenses for the duration of legal protection) including maintenance services for renewable one-year periods;
  - Maintenance contract – Maintenance includes updates and technical support applicable as of the second year of a perpetual license contract. As of the second year, maintenance revenue is recognized as software (maintenance) revenue.
- Or, according to criteria concerning new client purchases:
  - "Recurring Business" includes contracts renewed by customers with no modification from one year to the next, as well as additional features purchased for software already installed in the system of an existing client;
  - "New Business" comprises new customers and new products purchased by existing clients.

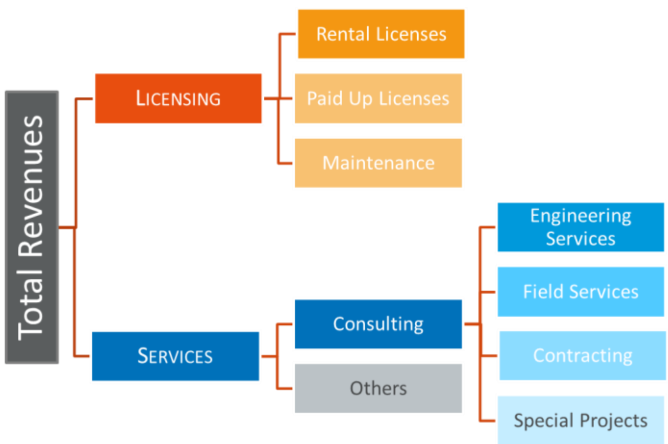
1.1.1.2. Consulting services (Service Activity)

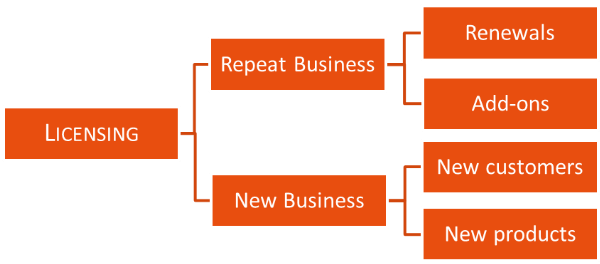
In addition to its main business activity as a software vendor, the Group also provides consulting services directly related to Virtual Prototyping.

The Service activity, which accounted for 23% of 2016 revenue, includes Consulting and Other Services.

Consulting covers the following four fields:

- Engineering studies are joint industrial projects carried out in partnership with major industrial corporations with the aim of promoting large-scale deployment of new applications with high economic potential that have already been proven technologically viable, such as the specialized products described below. The Group customizes its specialized software and the industry partner performs the prototype trials necessary to validate specialized simulation models. The Group invoices its partners for the cost of its services, but funds its own software development work. As a result, it retains the intellectual property rights to the software products developed or modified;
- Field Services include support services in conjunction with software sales activities (on- and off-site training and technical assistance);
- Contracting consists of studies, and in particular application tests (design verification and virtual performance testing of industrial products). These services are generally invoiced based on time worked (lump sum or actual time spent) except for on line support services which may be provided as part of the support services included with the annual license for the use of software packages.
- Special Projects are R&D initiatives 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. The Group treats these projects as 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 at a very early stage, as a scientific partner in a wide variety of innovative high-tech projects.





1.1.2. Strategy

1.1.2.1. Accelerating industrial innovation with Virtual Prototyping

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

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

With Virtual Prototyping, manufacturing industries have the means necessary to rise to the foremost industrial challenge: delivering innovative products at a lower cost, more quickly and with greater reliability.

Customers' main concerns 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 to assure an optimum maintenance cycle and cost;
- Predicting equipment performance under extreme conditions and anticipating measures to reduce downtime and repair costs.

ESI Group aims to give customers across all industrial 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. The Group's customers can thus enjoy a comprehensive and living view of issues related to manufacturing, assembly, and coupling between different product attributes and performance domains – long before physical prototypes can be created and tested.

Virtual Prototyping delivers key information for design iterations that also help prepare physical testing in the best possible way, right up to the pre-certification stage, and 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 physical prototypes. Using Virtual Reality solutions such as IC.IDO, industrial companies can now bring their product to life long before it is produced, and even entirely without a physical prototype. This revolutionary technology makes for collaborative, concurrent decision-making (multi-functional, multi-site and multi-physical) at each stage of the design process.

1.1.2.2. Filling gaps and managing complexity in virtual product development with the 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 costs incurred in producing and testing real prototypes, making it possible to anticipate test results, eliminate useless tests, and drive design changes more intelligently, thereby reducing 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 traditional methodology described above does bring about concrete gains, it has some inherent risks and significant gaps:

- Coupling effects between design disciplines and regulations are unclear;
- The impacts of the manufacturing (and assembly) process and flaws in the procedure on product components are unknown;
- Calibration is often insufficiently tailored to a specific product, carried out too late in the process and in an extemporaneous manner on prototypes that do not represent the actual product;
- Innovations may be wrongly rejected due to unmanageable complexity.

In contrast, ESI's Virtual Prototyping solutions provide a rational and effective response to these fundamental concerns by placing Virtual Manufacturing and Virtual Reality at the core of a comprehensive 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 multi-domain performance, gradually optimized with respect to standards, conditions of use, and increasingly stringent current and future regulations, among other factors;
- Building of cause-and-effect relationships between design and fabrication parameters, from component parts

to the system as a whole, while making intelligent trade-offs by using interactive virtual reality on models of increasing complexity;

- Calibrating basic material physical properties at the start of the modeling phase to ensure realistic predictive models according to the circumstances and limits identified;
- Rigorous updates of these predictive models through predefined processes during assembly and multi-domain testing;
- Assessment of robustness and safety interactions, regularly controlled in a fully transparent way at each step, making it possible to pinpoint the best practices;
- Finally, this all contributes to the development of the model to ensure that 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 physical test, which may be required for final validation.

Innovations thus become dramatically easier to evaluate and implement.

1.1.2.3. Control the product lifecycle following rollout

Coupled with latest-generation technologies, ESI Group's all-around solution, which currently offers a comprehensive development and manufacturing process for industrial products, is revolutionizing the traditional Product Lifecycle Management (PLM) market. Indeed, Virtual Prototyping is part of an overarching approach known as Product Performance Lifecycle (PPL), which addresses products' operating performance throughout their complete lifecycle, from rollout to withdrawal. The ESI solution now relies on creation of a physics-based Virtual Prototype, manufactured, assembled and structured component by component, and then endowed with multiple system connections that model interactions within the assembled product in an operational and interconnected functioning format. This transformative approach to Virtual Prototyping also features the virtual reality solution (IC.IDO), allowing customers to have teams all over the world share their product in real time, all in a 3D-4D environment. However, to date, few if any methods are available to improve and control the life of a product subsequent to rollout and adoption by users! That is where the extension of the PLM approach comes into play, inaugurating a new age of PPL. Indeed, the ever-growing number of possibilities offered by Big Data and the Internet of Things now make it possible to monitor the life of products after rollout, creating a new outlook for hybrid virtual representations, i.e. representations that allow for updating of Virtual Prototypes using data measured in real time and enhanced by artificial intelligence. The creation of Hybrid Twins incorporating simulation, physics, and data analytics makes it possible to create smart products, particularly using connected objects, as well as to predict their performance and anticipate their maintenance requirements, while providing an essential response to the fundamental economic issues of smart factory of the future.

This unique value proposition, incorporating numerous disruptive innovations, is the fruit of the Group's longstanding technological differentiation strategy based on multiple international partnerships and highly innovative industrial co-creation projects, implemented with an eye to defining the Group's positioning throughout the product's manufacturing cycle and useful life.

The Group has already achieved success in a number of initiatives, thanks to a remarkable collaboration and co-creation approach between ESI Group and global leaders in various industries. The best is yet to come, thanks to the availability of greater computing power at an affordable cost and more user-friendly software solutions.

1.1.3. Main markets

1.1.3.1. The Virtual Prototyping market

ESI Group's business model seeks to take advantage of major industry trends moving toward "100% digital" and comprehensive computerized Product Lifecycle Management (PLM). In this market, ESI Group's solutions bring a considerable and 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. Going beyond the design and development phases of the classic PLM model, ESI Group's solutions allow for complete control over the entire lifecycle of products and product performance, by offering a disruptive approach to virtual performance modeling of connected or unconnected products in operation, as well as predictive maintenance right up to the end of the product's useful life (PPL).

Market characteristics

The highly-specialized nature of ESI Group's operations and its unique role in the field of Virtual Prototyping make it difficult to delineate ESI's market with any precision. 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 the market varies greatly among the players in the industry.

Nonetheless, US market research firm CIMData published a study on PLM (estimated at $40.7 billion) in April 2017, which included Virtual Prototyping under the category of "Simulation & Analysis Suppliers" (activity estimated at $5.2 billion). Most of the companies listed in this category are active in the field of analysis, however, 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 the Group addresses, its longstanding experience working closely with major industrial corporations, its significant 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:

- Longstanding partnerships with major industry players that both use (manufacturing industries) and supply (software platforms) technical computing systems;
- Highly-skilled teams of researchers, which the Company has been able to attract and retain thanks to its specialized expertise and reputation in the field of physical simulation;
- Licensing agreements signed in a wide range of particular complex or highly specialized fields.

All of these partnerships are the result of the exceptional expertise gained since ESI's 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 (i.e. automotive, defense, aerospace, nuclear power, transportation, energy, electronics, consumer goods, biomedical, etc.)

Under current conditions, it would be a mistake to discount the possibility that new and larger competitors with greater resources could emerge in ESI Group's field of activity. However, especially with regard to key CAD/CAM players, major automakers seem neither to anticipate nor to want such a development, preferring to do business with companies specialized in the area of physics-based simulation, distinct 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 as a way of facilitating the sharing of computational data within the CAD/CAM world and ensuring compatibility with resource management systems. It is also worth noting the presence of Siemens/UGS in the technical data management field with its TeamCenter solutions, the de facto standard in the automotive market. In 2012, Siemens complemented its Simulation offering by acquiring the Belgian company LMS, followed by CD Adapco, a leader in digital and mechanical fluid simulation, in January 2016. In February 2016, MSC Software, a software publisher specializing in design tools (CAE) was taken over by Hexagon AB.

Given the high barriers to entry that protect the 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, and one that features 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 major clients in highly specialized, mature markets – like the automotive industry – its products can be adapted to a wide range of industries.

However, large-scale adoption of these solutions would require 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 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 a "hybrid twin" of their real product on a daily basis. This twin can be used to make decisions at every stage in the product lifecycle: from design to development, testing, manufacturing, operation, and elimination.

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

1.1.3.2. Geographic areas

Markets are segmented both by geographic area and industry.

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

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

	2016		2015		2014	
Revenue	(in € thousands)	(as a % of the total)	*(in € thousands)*	*(as a % of the total)*	*(in € thousands)*	*(as a % of the total)*
Europe, Middle East and Africa	63,419	45 %	57,098	46 %	53,480	48 %
Asia-Pacific	54,864	39 %	44,291	36 %	38,475	35 %
Americas	22,268	16 %	23,329	19 %	19,062	17 %
TOTAL	**140,551**	**100 %**	**124,718**	**100 %**	**111,017**	**100 %**

As in previous years, the Group maintained a strong international presence, with 87.2% of revenue generated outside France.

1.1.3.3. Industrial sectors

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;
- Driving and comfort (noise, vibrations, etc.);
- Engine and transmission;
- Aerodynamics, engine aerothermodynamics, drainage, ford crossing.

Main clients: Alstom Transport, Audi, Fiat Chrysler Group, Ford Motor, General Motors, Honda, Hyundai, Mercedes-Benz, Renault-Nissan, Shanghai Automotive Industry Corporation, Volkswagen Group.

Aeronautics and Aerospace offering

ESI Group's diverse offerings allow it to propose solutions in areas such as:

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

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

Heavy industry offering

ESI Group's solutions are designed for companies working in heavy industry and raw materials processing. They also meet simulation needs in the following areas:

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

behavior in their environment.

Main clients: Alcoa, Arcelor Mittal, Caterpillar, General Electric, Hitachi, Sumimoto, Takata, Whirlpool.

Energy offering

The main areas of application are the following:

- Verification of compliance with technical regulations (safety and useful life);
- Performance and improvement of new energy sources, e.g. wind energy;
- Energy consumption optimization.

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

Government and Defense offering

ESI Group's product offering primarily covers the following areas:

- Complex physical phenomena;
- Comfort of military vehicles.

Main clients: CEA, CEE, DCNS, European Space Agency, Huntington Ingalls Industries, Japan Automobile Research Institute, Ministère de la Recherche (RTNL), NASA, U.S. Army.

Electronics and Consumer Goods offering

ESI Group solutions include:

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

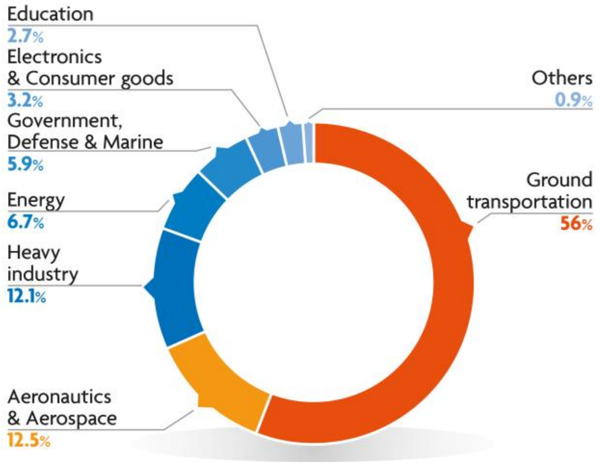
Main clients: Aixtron, Applied Materials, Bertrandt, Gestamp Group, Google, LG, Samsung.

Education offering

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

- Education and assistance in training future engineers in new Virtual Prototyping tools and technologies;
- Special Research Projects, undertaken in collaboration with universities to meet the needs of industry.

In 2016, orders in the main industrial sectors broke down as follows:



1.1.4. Ecosystem

ESI Group is particularly mindful of the richness and development of its ecosystem, which it considers as the cornerstone of its success.

Year on year, the Group strives to strengthen its ecosystem, determining how to best target the very extensive and fast-growing community of professionals involved in product manufacturing and industrial processes. Always expanding, the network built with partners, customers, suppliers, and all of the Group's other stakeholders makes it possible to accelerate and spread innovation and to support the sale of software and services.

1.1.4.1. Distribution network and local expertise

Distribution network

In 2016, some 550 people worked within our distribution network to cover software sales, services production, and support customers. The Group's proprietary distribution net-work accounted for more than 90% of sales. Remaining sales were carried out indirectly via a network of third-party dis-tributors and agents, complementing and enhancing our direct network.

Expertise

The wide range of software and services ESI Group offers meets the increasingly demanding needs of industry at every step of product and process development. The Group brings this global expertise to each and every customer, anywhere in the world.

1.1.4.2. Partnerships

The Group values its partnerships with hardware suppliers, software solution providers, leading industrial companies, and technological and academic institutes alike. These alli-ances are deeply rooted in its corporate strategy to develop and facilitate Virtual Prototyping.

Corporate partnerships

ESI Group has always aimed to establish mutually beneficial strategic corporate partnerships with international companies, working together to promote innovation.

Strategic "partner-customers"

The success of ESI Group's solutions is also the fruit of re-markable collaboration and a co-creation approach with world leaders such as Renault-Nissan, Volkswagen, Honda and EDF-AREVA. The Group's approach is based on building close and long-lasting relationships which support meeting the specific needs of customers looking to successfully incor-porate Virtual Prototyping into various industrial sectors.

Strategic and academic partnerships

To ensure constant innovation, ESI Group enters into part-nerships with many first-rate universities, technological insti-tutes and leading colleges, in the many countries where the Group does business. The purpose of these collaborations is to share experiences and explore new technologies, encour-aging young people to work in the industrial sector, training the finest employees of tomorrow, and foster innovation in education.

1.2. History of the Group

1973 TO 1990

- In 1973, Alain de Rouvray, along with three other engineering colleagues and partners, Jacques Dubois, Iraj Farhooman and Eberhard Haug, created ESI (Engineering System International). The company initially operated as a consulting company for European defense, aerospace, and nuclear industries. In 1979, the company opened a subsidiary in Germany.
  In 1985, ESI carried out the first successful digital crash-test simulation for a German consortium led by Volkswagen. This marked the start of development of its flagship software package, PAM-CRASH.

1991 TO 1999

- In 1991, ESI became ESI Group and raised venture capital to enter the field of software edition. The company set up subsidiaries in the United States, Japan, and South Korea. In 1997, it took over Framasoft (digital and mechanical simulation for the nuclear industry), followed by Dynamic Software (stamping simulation) in 1999.

2000 TO 2010

- In July 2000, ESI Group launched an IPO, raising some €30 million.
  From 2000 to 2008, ESI Group pursued a concerted external growth strategy, successively acquiring Mecas, strengthening its distribution network in Eastern Europe, STRACO (Vibro-Acoustic market), VASci (Vibro-Acoustic Sciences for noise and acoustic comfort simulation), ProCAST and Calcom (foundry and metallurgy simulation), the Product Division of CFD Research Corporation (fluid dynamics), the Service business of IPS International (virtual human models), ATE Technology International Ltd. (sector diversification in China), the Vdot software platform (product development process management), and finally Mindware Engineering Inc. (fluid dynamics sector).
  Meanwhile, ESI Group strengthened its international presence by opening subsidiaries in Argentina, India, China, Italy, Brazil, and Tunisia.

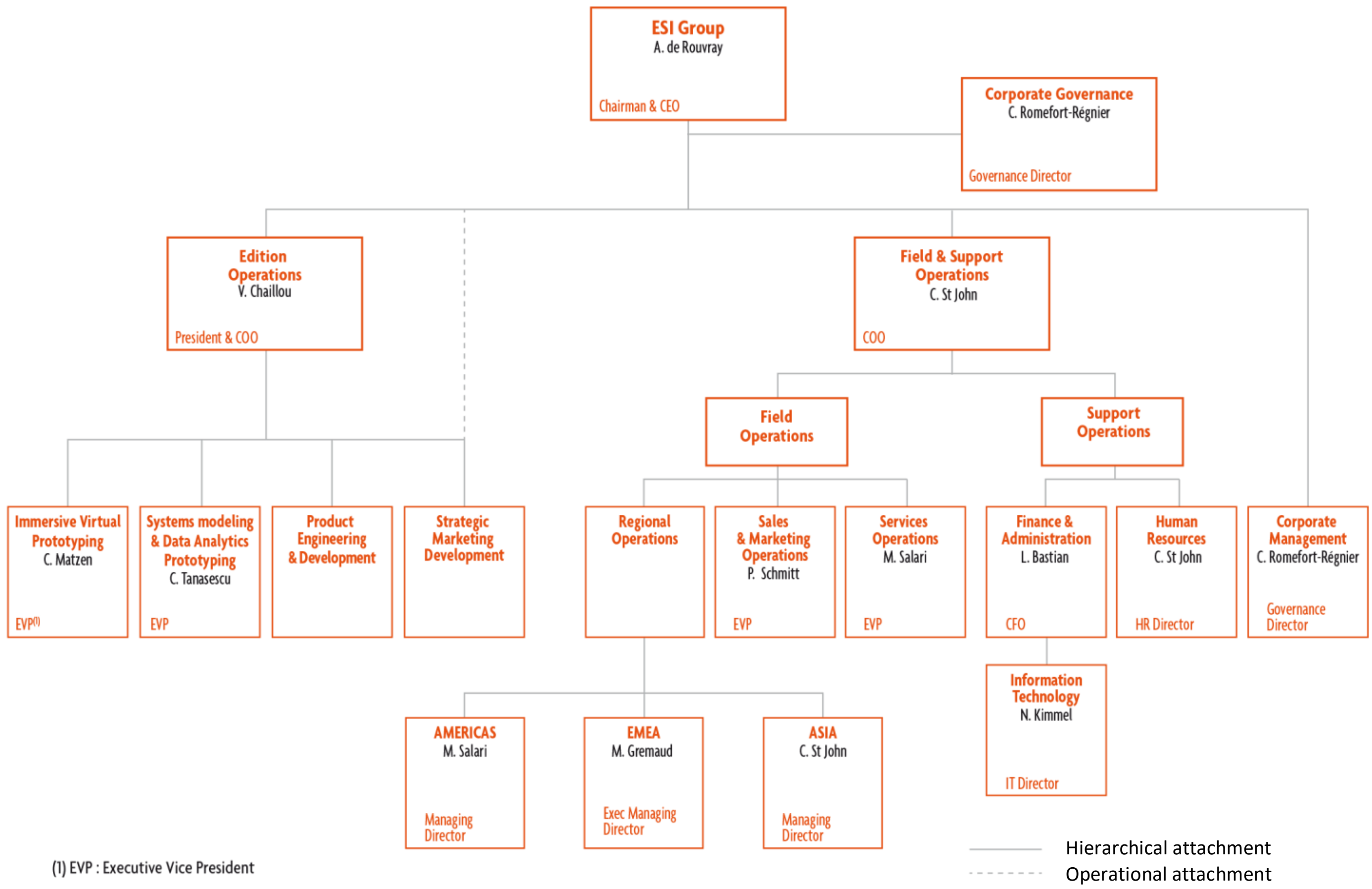
2011 TO TODAY

- In 2011, ESI Group acquired the company IC.IDO, or “I see, I do” (immersive virtual reality solutions), followed by Efield AB (virtual simulation of electromagnetic phenomena). The following year, ESI Group took over OpenCFD Ltd (leader in open-source fluid dynamics software) from SGI, thereby taking ownership of the OpenFOAM® brand.
  In 2013, ESI Group signed a joint venture agreement with AVIC-BIAM to collectively operate the new company “AVIC-ESI (Beijing) Technology Co. Ltd” (effective as of February 1, 2014), and subsequently acquired CyDesign Labs Inc. (system modeling).
  In 2015, ESI Group carried out the following acquisitions: CIVITEC (virtual simulation of automated driver assistance – ADAS), the business assets of PicViz Labs (Big Data-based predictive analysis), the technology assets of Ciespace (Cloud/SaaS offering), and the Presto software platform (electronics cooling market).
  In 2016, ESI Group continued to extend its strategic positioning by acquiring ITI GmbH (realistic simulation of mechatronic and multi-domain systems) and Mineset Inc. (Big Data visual analytics and machine learning). In late 2016, ESI Group signed a strategic, long-term partnership agreement with PARC, a Xerox Group company, with the goal of expanding and industrializing the advanced research project on Fault-Augmented Model Extension (FAME).
  In early 2017, ESI Group took over Scilab Enterprises, publisher of the Scilab open source analytical calculation software, with the goal of making immersive virtual engineering more accessible for a worldwide community of engineers and scientists.
  These numerous acquisitions have allowed ESI Group both to extend its sales positioning with an eye to ensuring optimal service to its customers, and to develop its product portfolio, putting forth a comprehensive offering suited to the needs of industrial companies working in the industry of the future.

1.3. Group structure

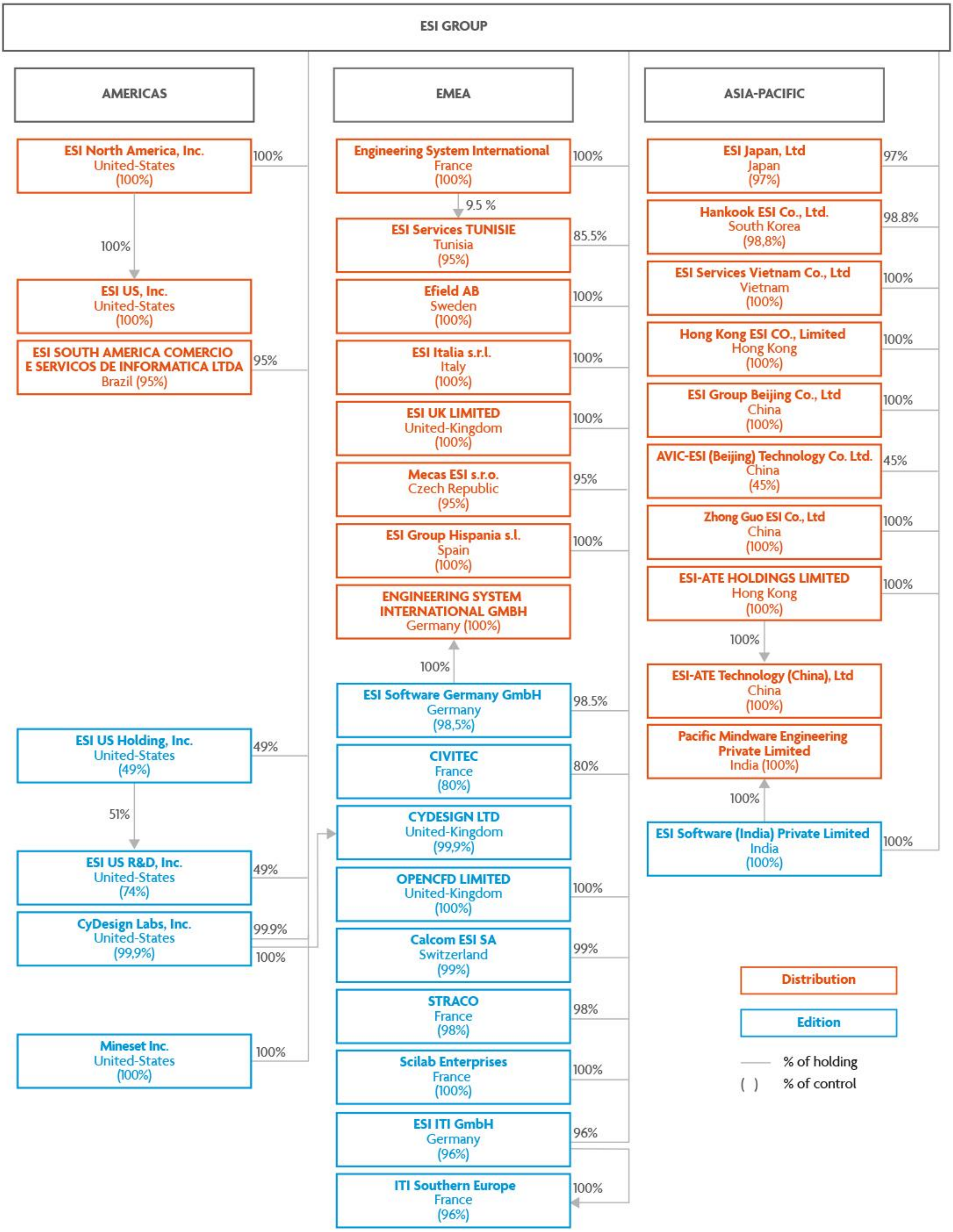
1.3.1. Operational flowchart

At April 30, 2017, the Group's operational flowchart was as follows:



1.3.2. Legal flowchart

At April 30, 2017, the Group's legal flowchart was as follows (in particular, this includes the acquisition of Scilab Enterprises, concluded in February 2017):



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

For more information, see note 7.9 “Table of controlled entities and affiliates at January 31, 2017” in the notes to the consolidated financial statements.

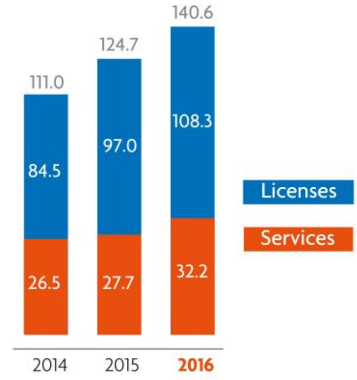
1.4. Selected financial information

This information can be found in the consolidated financial statements.

1.4.1. Revenue

2016 annual sales came to €140.6 million, up 12.7% from the previous year. Acquisition-related revenue amounted €6.4 million (+5.1%) reflecting the implementation of initial commercial synergies. The positive currency effect came to €2.1 million (+1.7%), arising mainly from the positive trend of the Japanese yen.
The product mix reflects the strong performance of Services, which now account for 23% of total revenue, compared to 22% last year.

CHANGE IN REVENUE *(IN € MILLIONS)*



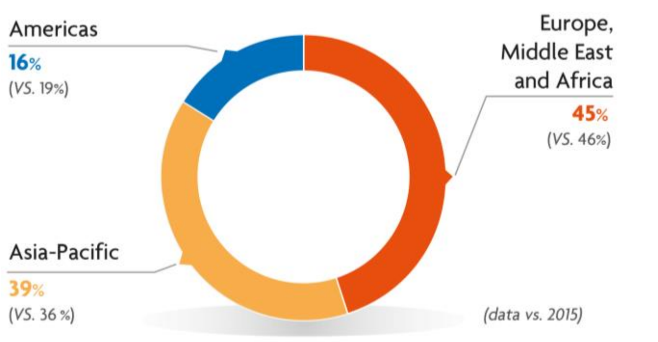
1.4.2. Strategic business alignment

Licenses revenue came to €108.3 million, up 11.6% from the previous year. This momentum was driven by the growth of the installed base (+13.0%), that holds a high repeat business rate of 89.1% measured for the organic perimeter and at constant exchange rates. New Business amounted to €17.9 million, a 3.0% increase from 2015.

Services activity amounted to €32.2 million, up an impressive 16.5%. This activity was boosted by the continued expansion in engineering studies (+16.8%), ESI Group's core business, as well as strong growth in special projects (+57.1%), i.e. co-creation and methodological transformation projects related to recently acquired and emerging technologies.

1.4.3. Breakdown of revenue by geographic area

GEOGRAPHIC BREAKDOWN



Business in BRIC countries accounted for 13.3% of rev-enue compared to 12.6% in 2015. This increase was due in large part to solid business performance in China and India.

1.4.4. Profitability

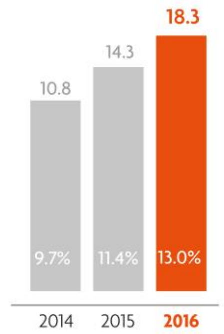
EBITDA rose by 28.1%, from €14.3 million to €18.3 million, giving an EBITDA margin of 13.0% compared with 11.4 % in 2015. This rise was due in particular to the low increase of the Sales & Marketing (S&M) costs (+8.4%) and General and Administrative (G&A) costs (+9.8%), respectively representing29.8% and 13.5% of total sales.
As a reminder, EBITDA as presented here excludes non-re-

curring profit and includes the impacts of capitalization of research and development expenses and net allowances on impairment of accounts receivable.
Current Operating Profit jumped 30.1% to €15.4 million, showing a current operating margin of 10.9%, i.e. growth of 1.4 percentage points compared to last year.
EBIT surged by 46.7% to €13.7 million, for a margin of 9.8%, up 2.3 percentage points compared to FY2015. This impressive growth, bigger than that of EBITDA and Current Operating Profit, was mainly due to the lower non-recurring costs.

Last year, this item included expenses associated with the most recent technological acquisitions.
The Financial Result, impacted by the rise in interest expenses and foreign exchange losses following appreciation of the Japanese yen against the euro in the second semester, stood at €-2.1 million compared to €-0.9 million in 2015.
Attributable Net profit came to €7.5 million, i.e. a net margin of 5.4%.

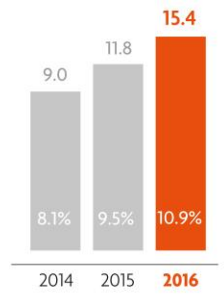
EBITDA

[IN € MILLIONS AND AS A % OF REVENUE)



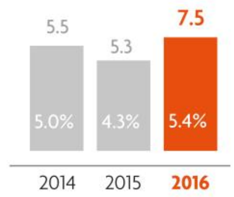
CURRENT OPERATING RESULT

[IN € MILLIONS AND AS A % OF REVENUE)



ATTRIBUTABLE NET PROFIT

[IN € MILLIONS AND AS A % OF REVENUE)



1.5. Major investments during the past three fiscal years

1.5.1. The Group's recurring investments

The Group's recurring investments in operations represent approximately 2% of its revenue. Over the past three financial years, these investments amounted to €1.8 million in 2014, €2.7 million in 2015 and €2.3 million in 2016. 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 develop-ment costs is found in note 6.1.2 to the consolidated financial statements.
The net carrying amount of capitalized research and devel-opment costs stood at €38.3 million at January 31, 2017 and corresponds to approximately 14 months of research and development.

1.5.2. The Group's non-recurring investments

a) Acquisitions of intangible assets

Since 1994, the Group has been acquiring both 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, including goodwill and intangible assets with an indefinite useful life, 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, 2016 and January 31, 2017 is presented in the table below. See notes 3.2.1 and 6.1.1 to the consolidated financial statements for further information.

(In € millions)	January 31, 2016	Change in scope of consolidation	Foreign exchange gain/(loss)	January 31, 2017
Goodwill	38.5	2.2	0.1	40.8
Intangible assets with an indefinite useful life	12.0			12.0
TOTAL	**50.5**	**2.2**	**0.1**	**52.8**

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.

1.5.3. 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 customers.

In 2017, the Group plans to spend approximately €4.0 million. Capital costs committed at the time of writing came to approximately €1.1 million. On February 24, 2017, the Group took over the French company Scilab Enterprises, publisher of the Scilab open source analytical calculation software, with the goal of making immersive virtual engineering more accessible for a worldwide community of engineers and scientists.

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.

1.6. Risk factors

The Group has reviewed the major risks that could have a material effect on its business activities, financial position, or results, and considers that there are no material risks other than those outlined in the four categories below.

1.6.1. Strategic risks

Risk associated with the international economic and political environment

The global economic, commercial, and social as well as geopolitical context may influence the Group's results and revenue growth. In particular, the economic context and limited visibility may have an impact on customer investments and lead to lengthened sales cycles. In addition, some regions or countries may pursue protection policies that impede rollout of the company's solutions.

To limit the impact of economic conditions on its activities and financial results, the Group implements a policy of diversifying its customer base by strengthening its presence in new business sectors and geographic areas.

Risk of dependence on a single client or sector

The Group strives to diversify its business, both geographically and by industry. The Ground Transportation sector accounts for 56% of orders and uses a variety of technologies, thereby limiting any risk of dependence.

For several years, the Group's twenty largest customers have accounted for approximately 40% of orders.

To minimize this risk, the Group pursues a policy of diversifying its customer base in both geographic and sectoral terms.

Risk related to technological changes and the ability to respond rapidly to clients' needs

ESI Group's business is based on a close customer relationship that aims to meet clients' innovation needs in the different industrial sectors 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 working in co-creation with the Group;
- Academic partnerships providing access to the latest technological information;
- Distribution partnerships with key hardware and Cloud companies that offer advance access to the latest technologies.

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

Risk related to management and key personnel

Today, the expertise and experience of key personnel are shared broadly among qualified teams. No employee is the exclusive owner of a code or piece of knowledge; in other words, all this information is shared among the teams.

The Group's success depends in large part on its ability to attract, retain, and motivate quality employees, with a constant focus on aligning skills with the Group's needs and challenges.

To limit this risk, the Group has implemented an employee loyalty policy, primarily by creating Employee Share Ownership Plans (stock option and free shares) and Skill Development Plans.

1.6.2. Operating risks

Business risk

Since it deals with a very diverse customer base made up of major multinational industrial corporations, ESI's client insolvency risk is low and fully provisioned. 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). In many cases where China is concerned, 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. The amounts of doubtful receivables are presented in note 4.2 to the consolidated financial statements.

The Group is not exposed to any specific risks related to 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 service contracts

Revenue generated by the Group's Services Activity is recognized according to the percentage-of-completion method, and account for 23% of the Group's total revenue. In the case of fixed-price service contracts, the risk of underestimating costs is borne largely by ESI Group. Nonetheless, this risk is based on the Group's experience 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 client.

Risk related to inability to provide the expected results depends on the agreements and preliminary work carried out to grasp 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 of results being rejected is covered by acceptability criteria specified either in the bid or at the start of work.

Risk associated with the quality of products and services

ESI Group is committed to offering high-quality products and services, in accordance with its focus on customer satisfaction. These initiatives require implementing processes and mechanisms that enable effective management of development and production projects. To reduce the risk of quality being compromised, for several years the Group has been pursuing overall ISO 9001 certification with the aim of incorporating all of its subsidiaries.

The Group's pursuit of this certification is a testament to its confidence in the quality of the solutions it provides to its customers, as well as its concern for excellence regarding overarching alignment of processes in managing quality risks. Overarching certification guarantees that ESI Group pays particular attention to excellence regarding all of its processes as well as its employees.

Risk related to the security of facilities and internal systems
To reduce the risk related to the security of facilities and internal systems, the Group has established security and data backup mechanisms and restricts access to critical and sensitive information. An experienced security officer constantly watches systems and network security. The internet connections and firewalls of all facilities are centrally managed and monitored, thus minimizing the risk of intrusion and/or piracy. Critical services are regularly backed up in accordance with a documented process, and, in the event of a major malfunction or other catastrophe, a backup site has been designed and is operational.

Industrial and environmental risk
The Group is bound by a best-efforts obligation towards its customers (regarding the integrity of the algorithms used in its software) but is not obliged to produce a specific result regarding implementation of its software.

ESI Group designs, develops and markets Virtual Prototyping software. The environmental impact of these activities is relatively small by nature and limited mainly to the production of paper waste and used computer equipment. This impact is further 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 Group's computer rooms do not use halon, and comply with environmental standards.
To the best of its knowledge, the Group does not currently, nor has it ever violated any environmental regulation, and no legal action has ever been taken against it in relation to the environment. Furthermore, the Group'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.
For more information on the Group's corporate responsibility, refer to section 3, “Corporate Social, Societal, and Environmental Responsibility.”

1.6.3. Financial risks

Exchange rate risk
See notes 7.1.4 and 7.3 to the consolidated financial statements.

Interest rate risk
See notes 7.1.2, 7.1.4 and 7.3 to the consolidated financial statements.

Equity risk
See notes 9.1 and 7.3 to the consolidated financial statements.

Risk related to impairment of goodwill or of intangible assets
See notes 3.1 and 6.1.3 to the consolidated financial statements.

Liquidity risk
See notes 7.1 and 7.3 to the consolidated financial statements.

1.6.4. Legal risks

The Group has a legal affairs department that is divided into two branches:
– the corporate legal affairs branch, which is responsible for monitoring, researching and optimizing the Group's legal situation as well as coordinating the legal aspects of subsidiaries’ operations;
– the intellectual property branch, which ensures that the Group's intellectual property rights (software codes, databases, inventions and expertise, trademarks, etc.) are protected, and takes all necessary measures (trademark registration, patent applications, confidentiality agreements, establishing exclusive rights, etc.) to safeguard them. This branch 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.

Intellectual property risks
Given the nature of its activities, the risks faced by the Group pertain mainly to intellectual property.
These potential risks are as follows:

<u>Counterfeiting of products marketed by the Group</u>
With respect to 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 gen-erated by ESI Group regardless of how the software is distrib-uted (distributors and agents), and are linked to the FlexNet Publisher software (formerly known as Flexlm), which repre-sents the world standard for secure computer codes. In the event that a way around the FlexNet code is found, ESI Group also uses a counterfeit detection tool together with a legal assistance service to prosecute counterfeiters. This service has proven to be highly effective.

<u>Risk related to claims by third parties as to the ownership of codes published by the Group</u>

With regard to the risk of third-party claims, the Group's soft-ware products are, broadly speaking, either developed within the Group or acquired through mergers or acquisi-tions. In rare cases, they are the result of development con-tracts signed with third parties.

As for the codes developed in-house, the Group's companies retain ownership of the intellectual property under the em-ployment 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 conducted 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.

<u>Contractual liabilities and damage clauses</u>

Regarding 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.

<u>Transfers of more rights than necessary due to customers' General Purchase Conditions</u>

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

<u>Prevention of undue granting of free licenses and transference of profits within R&D consortia</u>

The intellectual property branch of the 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.

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 its ordinary business in France and internationally, ESI Group is particularly concerned with issues relating to the French Research Tax Credit (CIR) and transfer pricing. The Group receives assistance in these matters from specialized external consultants and has established the appropriate documentation.

This documentation is verified in the context of government policies of periodic review. With the exception of disputes regarding ordinary business operations, the Company is not involved in any government or legal procedure, or any arbi-tration process liable to have material impact on its financial position, activities or results (see note 10.2.2 to the consoli-dated financial statements).

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

2 CORPORATE GOVERNANCE

In accordance with the provisions of Article L. 225-37, subparagraphs 6-10 of the French Commercial Code, this chapter includes the Chairman's report on corporate governance, internal control and risk management procedures (the "Report") and outlines the following items:

- The Corporate Governance Code followed by the Company and application of the recommendations contained therein;
- The composition of the Board and the application of the principle of balanced gender representation;
- Conditions for preparing and organizing the work of the Board of Directors;
- The limits the Board of Directors imposes on the prerogatives of the Chief Executive Officer and Chief Operating Officers;
- The principles and rules set out by the Board of Directors to determine compensation and benefits of any kind granted to executive corporate officers;
- As well as internal control and risk management procedures implemented by the Company.

The other information referred to in Article L. 225-100-3 of the French Commercial Code, and particularly information concerning the share capital and shareholding structure, can be found in section 7.

This Report was prepared with the assistance of ESI Group executive management as well as the Legal Affairs, Human Resources and Finance and Administration Departments.

In accordance with Article L. 225-37 of the French Commercial Code, the Board of Directors approved the Chairman's report at its April 18, 2017 meeting. The Report is also subject to review and approval by the Combined General Meeting of June 29, 2017.

2.1. Corporate governance procedures

It is noted that the Corporate Governance Code followed by the Company since April 2010 is the Middlenext Code. It may be consulted at www.middlenext.com. The most re-cent edition of the Code, including new areas of attention and four new recommendations, was published in September 2016. The members of the Board of Directors have familiarized themselves with the Code and reiterated their commitment to comply with all recommendations included therein and to periodically review the areas of attention.

Throughout FY2016, the Company focused on (i) taking account of the areas of attention set out in the Middlenext Code and (ii) adapting its practices to ensure compliance with all recommendations mentioned in the Code. In this respect, it is noted that, in accordance with the "comply or explain" principle, as well as AMF Recommendation no. 2013-20, a cross-reference table laying out the different recommendations of the Corporate Governance Code followed by the Company is provided below.

TABLE SHOWING THE APPLICATION OF RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

Content of the recommendation		Application by the Company	Paragraph of Registration Document
R.1.	Code of Ethics of the Board of Directors	Recommendation followed by the Company	2.4
R.2.	Conflict of interest*	Recommendation followed by the Company	2.4
R.3.	Composition of the Board - Presence of independent members on the Board	Recommendation followed by the Company	2.3
R.4.	Communication of information to members of the Board	Recommendation followed by the Company	2.4
R.5.	Organization of Board and Committee meetings	Recommendation followed by the Company	2.4
R.6.	Establishment of Committees	Recommendation followed by the Company	2.4
R.7.	Establishment of Board rules of procedure	Recommendation followed by the Company	2.4
R.8.	Choice of each Director	Recommendation followed by the Company	2.3
R.9.	Terms of office of members of the Board	Recommendation followed by the Company	2.3

R.10. Director compensation	Recommendation followed by the Company	2.5.1
R.11. Assessment of the work done by the Board	Recommendation followed by the Company	2.4
R.12. “Shareholder”* relations	Recommendation followed by the Company	2.4
R.13. Definition and transparency of compensation paid to corporate executive officers	Recommendation followed by the Company	2.5.2
R.14. Preparation of “executive”* succession	Recommendation followed by the Company	2.4
R.15. Combined employment contract and Directorship	Recommendation followed by the Company	2.5.2
R.16. Severance pay	Recommendation followed by the Company	2.5.2
R.17. Supplementary pension plans	Recommendation followed by the Company	2.5.2
R.18. Stock options and grant of free shares	Recommendation followed by the Company	2.5.2
R.19. Review of areas of attention	Recommendation followed by the Company	2.1

* *New recommendation*

2.2. Workings of the Board of Directors and Executive Management

2.2.1. Chairman of the Board of Directors

In accordance with article 11 of the articles of association, the Board of Directors elects a Chairman from among its natural person members, 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. The Chairman organizes and supervises the work of the Board. He/she ensures that the Company's various bodies function properly, with particular attention to guaranteeing that Board members are able to fulfill their mission.

People over the age of 80 may not serve as 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. It is noted that the General Meeting of July 22, 2015 decided to reappoint Mr. Alain de Rouvray for a term of four years, to expire upon the General Meeting of 2019.

2.2.2. Chief Executive Officer

In accordance with legal provisions, the Board entrusts executive management of the Company either to the Chairman of the Board of Directors or to another natural person, whether or not a Board member, who holds the title of Chief Executive Officer.

The choice between these two executive management options is made by the Board of Directors. The Board's decision regarding the choice of executive management structure is made by majority vote of the Board members present or represented. The Board's 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.

At its July 22, 2015 meeting, the Board of Directors decided to combine the functions of Chairman and Chief Executive Officer and to reappoint Mr. Alain de Rouvray as Chief Executive Officer for a term of four years expiring in 2019. This arrangement was consistently chosen as the most appropriate, considering the Company's size and the presence of two Chief Operating Officers who can assist the Chairman and Chief Executive Officer.

The Chief Executive Officer is granted 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.

2.2.3. Chief Operating Officers

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. In accordance with article 14 of the articles of association, the number of Chief Operating Officers may not exceed 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.

At its July 22, 2015 meeting, the Board of Directors decided to reappoint Mr. Vincent Chaillou and Mr. Christopher St. John as Chief Operating Officers for a term of four years, expiring in 2019.

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

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

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, commission or pension for all such individuals or legal entities. Annual compensation shall not exceed €100,000.

In all cases, the Chief Operating Officers require 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 mergers;
- 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 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, or transfer or mortgage any assets belonging to the Company worth more than €50,000;
- To enter into commercial contracts or transactions exceeding €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 €50,000;
- In general, to enter into any agreement or transaction involving other Group companies, clients or partners falling outside the Company's commercial territory or authority.

2.2.5. 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;
- Production of products and solutions;
- Service activity;
- Finance and Administration;
- Human Resources;
- Quality;
- IT.

In collaboration with the Specialized committees, the GEC prepares and submits documentation to the Board of Directors regarding certain operations that require Board approval before they can be carried out and/or implemented.

To date, GEC membership is as follows:

Last name, First name	Title
Mr. de Rouvray, Alain	Chairman of the Board and Chief Executive Officer of the Company
Mr. Chaillou, Vincent	Board member and Chief Operating Officer in charge of Editions Operations
Mr. St. John, Christopher	Chief Operating Officer in charge of Distribution and Support Operations
Mr. Bastian, Laurent	Chief Financial Officer
Mr. Salari, Mike	Executive Vice President, Engineering Services
Mr. Schmitt, Peter	Executive Vice President, Marketing and Sales
Mr. Matzen, Christian	Executive Vice President, Immersive Virtual Prototyping
Mr. Tanasescu, Christian	Executive Vice President, Systems Modeling and Data Analytics
Mr. Gremaud, Marco	EMEA Managing Director
Ms. Romefort-Régnier, Corinne	Corporate Governance Director, Secretary of the Committee

2.3. Composition of the Board of Directors

Chairman of 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 at most the maximum number of members permitted by law, unless a decision is made to increase this maximum in the event of a merger.

The Board of Directors pursues an ongoing objective of increasing the diversity and complementarity of skills required for service on the Board and ensuring balanced representation of all shareholders and women.

Directors are appointed by the annual Ordinary General Meeting, based on the recommendations of the Board of Directors, for a term of four years, in accordance with the recommendations of the Corporate Governance Code (R.9). These duties expire at the end of the Ordinary 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. Directors may be re-elected. They may be dismissed at any time by the Annual General Meeting.

The age limit to serve on the Board of Directors is 80. If a member of the Board of Directors exceeds this limit, he or she will automatically be deemed to have resigned. He or she will nonetheless retain his/her seat until the first Board meeting following the date at which the Director in question exceeded the age limit.

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

Last name, First name	Title	Start of first term	End of term	Age
Mr. de Rouvray, Alain	Chairman and Chief Executive Officer	1991	AGM 2019	73 years old
Mr. Chaillou, Vincent	Board member	2004	AGM 2020	67 years old
Ms. de Rouvray, Cristel (1)(2)	Board member	1999	AGM 2017	40 years old
Mr. des Isnards, Charles-Helen (2)	Independent Board member	2008	AGM 2017	72 years old
Mr. d'Hotelans, Éric	Independent Board member	2008	AGM 2019	66 years old
Ms. Jacq, Véronique	Independent Board member	2014	AGM 2018	49 years old
Ms. Ramanathan, Rajani	Independent Board member	2014	AGM 2018	50 years old
Mr. de Balmann, Yves	Independent Board member	2016	AGM 2020	71 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 June 29, 2017.

The following provides a summary of the changes in the composition of Board of Directors over the course of FY2016 as well as the changes expected to be made over the course of the current fiscal year:

	FY2016	FY2017
Resignation	N/A	N/A
Reappointment	Mr. Vincent Chaillou	Ms. Cristel de Rouvray Mr. Charles-Helen des Isnards
Appointment	Mr. Yves de Balmann	N/A

Personal information of current Board members

Alain de Rouvray
Chairman and Chief Executive Officer
Date of birth: 10/8/1943
French

Founder of ESI Group, 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.

Current offices held:
None

Offices held over the past five years:
None

Business address:
ESI Group - 100-102 Avenue de Suffren, 75015 Paris

Vincent Chaillou
Board member and Chief Operating Officer
Date of birth: 3/24/1950
French

Vincent Chaillou is the Company COO in charge of the Software Publishing Division. 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 served as General Manager of the AEC Business Unit, a department of ComputerVision (which has now merged with PTC). During his 16 years at ComputerVision, he held several management positions in sales, marketing and general management, specifically in the Asia-Pacific region. From 1994 to 1998, he was Regional Vice President for the American territory within ESI Group and CEO of ESI Software.

Current offices held:

- Member of the Board of the association Alliance Industrie du Futur
- Member of the Board of the association TECH'IN France
- Member of the Board of the association ASTech
- Member of the Board of the association IDFORCAR
- Member of the Board of the Railenium Technological Research Institute
- Member of the Board of the company CADEMCE SAS
- Member of the Board of Nuclear Valley
- Member of the Board of the French Mechanics association
- Treasurer of the Excelcar collaborative innovation platform

Offices held over the past five fiscal years:
NONE

Business address:
ESI Group - 100-102 Avenue de Suffren, 75015 Paris

Cristel de Rouvray

Board member
Date of birth: 10/15/1976
French, American

A graduate of Stanford University and the London School of Economics, where she obtained a Ph.D. in economics, Cristel de Rouvray is a resident of the United States. She divides her time between the position of Board member at ESI Group and that of consultant at College Track in Oakland, California.

Current offices held:

None

Offices held over the past five years:

None

Business address:
ESI Group - 100-102 Avenue de Suffren, 75015 Paris

Charles-Helen des Isnards

Independent Board member
Date of birth: 01/01/1945
French

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

Current offices held:

- Member of the Board of the association Les Arts Florissants
- Member of the Board of the Day-Solvay Foundation
- Offices held over the past five years:
- Member of the Supervisory Board of the company Nature & Découvertes

Business address:
ESI Group - 100-102 Avenue de Suffren, 75015 Paris

Éric d'Hotelans

Independent Board member
Date of birth: 07/03/1950
French

Éric d'Hotelans held positions in the information technology sector, first at Tandem (US computer manufacturer, taken over by HP), where he headed the Europe/Finance Business Unit. In 1998, he joined CMG, one of the oldest European IT services companies, as a member of the Executive Committee. In this capacity, he created CMG France (1,200 employees), the Group's French subsidiary, of which he became Chairman and CEO. He left 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 research and analysis of IT-related activities. In 2003, he joined the Board of Directors of M6 Group as Deputy Chairman in charge of management activities, assuming responsibility for the Group's online sales in 2009.

Current offices held:

- President of the company Home Shopping Services SA
- President of the company CADEMCE SAS
- Member of the Board of the company M6 Films
- Member of the Board of the company M6 Diffusion SA
- Member of the Board of the company Société Nouvelle de Distribution SA
- Member of the Board of the company Métropole Production SA
- Chair of the M6 Group Corporate Foundation
- Offices held over the past five years:
- Managing Director of the company Home Shopping Services SA
- Member of the Board of the M6 Group Corporate Foundation

Business address:
M6 - 89 Avenue Charles de Gaulle - 92575 Neuilly-sur-Seine Cedex

Véronique Jacq

Independent Board member
Date of birth: 01/02/1968
French

A Civil Engineer and graduate of 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. In 2003, she joined the 2nd Chamber of the French Court of Auditors, where she was responsible for auditing financial statements and management reports of companies and government agencies as well as international organizations. In 2007, she joined CDC Entreprises, a CDC subsidiary company specializing in private equity, and in 2010 became Deputy General Manager in charge of Business Development. In 2012, she became head of digital technology investments first at CDC Entreprises and then at Bpifrance as of 2013.

Current offices held:

- Member of the Board of the company OpenClassrooms
- Censor of the company Bonitasoft
- Censor of the company Scality
- Censor of the company Teads
- Offices held over the past five years:
- Censor of the company DelfMEMS

Business address:
Bpifrance - 6-8 Boulevard Haussmann, 75009 Paris

Rajani Ramanathan

Independent Board member
Date of birth: 3/25/1967
American, Indian

Yves de Balmann

Independent board member
Date of birth: 05/28/1946
French, American

Rajani Ramanathan has held a variety of positions, from running her own companies in India to scaling a multi-billion-dollar 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 build it into a high growth Fortune 500 company over 14 years. In her most recent role as Executive Vice President of Technology & Products, her responsibilities included delivering highly innovative products while ensuring that every employee has every chance of success. 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.

A graduate of Stanford University in the United States and Ecole Polytechnique in France, Yves de Balmann began his career at Citibank where he served as North American Executive Director for the Rates and Currency Derivatives Division, as well as his own Trading Department. He joined Bankers Trust in 1988. After the 1999 merger of this company with Deutsche Bank, de Balmann became Co-Head of the Global Investment Bank (GIB) Department of Deutsche Bank and Vice Chairman and CEO of Deutsche Bank Alex. Brown, the US division of the German bank, which brings together investment banking and intermediation activities. He held these positions until 2001. He also served on the Board of the Global Corporates and Institutions Division (GCI). In 2002, he created the company Bregal Investments, a first-rate international player in the field of private equity, which he co-managed until 2012. He lives in California.

Current offices held:

- Member of the Board of the company CloudCherry

Offices held over the past five years:

None

Current offices held:

- Member of the Board of the company Excelon Corporation
- Member of the Board of the company Finaliste
- Member of the Board of the non-profit organization Sweetwater Spectrum
- Offices held over the past five years:
- Member of the Board and non-executive Chairman of the company IP Management
- Member of the Board of the company Laureate Education

Business address:
ESI Group - 100-102 Avenue de Suffren, 75015 Paris

Business address:
ESI Group - 100-102 Avenue de Suffren, 75015 Paris

Experienced and complementary Directors

As can be seen in the short biographies presented above, the members of the Board of Directors have, through their education and their professional experience, considerable expertise in the fields of management and finance. Furthermore, most Directors are perfectly familiar with the Company's area of technology. Finally, their diverse profiles guarantee that the Board benefits from a complementary set of skills.

Independent members of the Board of Directors

The criteria used by the Compensation, Nomination and Governance Committee, and subsequently by the Board of Directors, to deem a Board member independent and to prevent potential conflicts of interest between the Board Member and management, the Company or the Group are as follows, in accordance with the recommendations of the Corporate Governance Code (R.3):

- Independent Board members must not be salaried employees or corporate officers of the Company or of a company within the Group, and must not have held such a position within the last five years;
- They must not have had a significant business relationship with the Company or the Group (client, supplier, competitor, service provider, creditor or banker) over the preceding two years;
- They must not be a Reference Shareholder of the Company or hold significant voting rights;
- They must not have a close relationship or immediate family ties with a corporate officer or Reference Shareholder;
- They must not have been an auditor of the company in the course of the previous six 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. Should 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 independent members, 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.

The Board of Directors reviews the situation of its members vis-à-vis these independence criteria on a yearly basis. At the present time, five Directors are considered as independent:

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

Internationalization of the Board of Directors and greater presence of women

The Board of Directors is currently made up of eight members, five men and three women. As such, the gender gap does not exceed two, as required by law No. 2011-103 of January 27, 2011 on gender equality in Boards of Directors and Supervisory Boards.

In addition, three Directors, Ms. Cristel de Rouvray, Ms. Rajani Ramanathan and Mr. Yves de Balmann have dual nationality, thereby enriching the Board with the cultural diversity they offer.

Length of terms

Directors serve four-year terms. This duration is in line with the recommendation R.9 of the Middlenext Code. Considering its size and the composition of its Board, the Company believes that four-year terms foster both long-term commitments on the part of Board members and better decision making thanks to in-depth knowledge of the Company, its markets and its activities, while also reinforcing Directors' independence due to more frequent submission of appointment renewals to the Company's Shareholders.

It is noted that the Extraordinary General Meeting of July 23, 2013 decided to shorten the length of terms on the Board of Directors from six to four years, without affecting terms in progress at that date, so as to allow Shareholders to be consulted sufficiently often regarding Board appointments.

Absence of criminal convictions or incriminations of corporate officers

In the past five years, to the best of the Company's knowledge, no Board member nor executive has been convicted of any fraudulent offense, 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 best of the Company's 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.

2.4. Conditions for preparing and organizing the work of the Board of Directors

Rules of procedure of the Board of Directors

The Board of Directors adopted a set of rules of procedure in 2009. These rules set out the operational procedures of the Board and its Committees, as well as the rules of professional ethics applicable to all Directors (R.7). These rules of procedure were reviewed in April 2013 and April 2016 to take account of the latest regulatory changes, in particular regarding the responsibilities of the Audit Committee, and to ensure that the rules are con-sistent with best practices of corporate governance. In light of the recent revision of the Middlenext Code in Sep-tember 2016, the Board recommends modifying the rules of procedure as necessary in the near future to guarantee compliance with the new recommendations set forth in the Code.

The rules of procedure can be consulted on the Company's website (www.esi-group.com). Each member receives a copy of these rules upon being appointed.

In accordance with recommendations R.1, R.2 and R.7 of the Middlenext Code, these rules of procedure particularly specify the following points:

- The composition of the Board of Directors and the procedure for determining whether a Board member is an independent member;
- Directors' duties and responsibilities (especially in terms of professional ethics, disclosure and management of conflicts of interest and compliance with rules applicable to insiders);
- 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 regarding Directors' compensation;
- The role of the Board of Directors and the Committees.

Professional ethics of Board members and prevention of conflicts of interest

Regarding professional ethics, it is noted that Board members are to refer to the Director Charter set forth by the French Institute of Corporate Directors and appended to the rules of procedure of the Board of Directors.

Concerning prevention and management of conflicts of interest, the rules of procedure and the Charter recommend that each Director strive to avoid any potential conflict between his/her moral and material interests and those of the Company. Each Director is obligated to inform the Board of any conflict of interest liable to involve him/her. Should the Director be unable to avoid a conflict of interest, he/she must recuse him/herself from any deliberations and decisions regarding the issues in question.

To the Company's knowledge, at the date this report was drawn up, there was no conflict of interest between the duties of the individual Board members with respect to the Company and their private interest and other duties.

Duties and powers 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 responsibility.

The Board of Directors is entrusted with 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;
- Deciding on the executive management structure of the Company by opting to appoint as Chief Executive Officer either the Chairman of the Board of Directors or another individual;
- Determining the powers that may be delegated to a subsidiary's General Manager and setting monetary limits on these powers;
- Preparing parent-company and consolidated annual financial statements and interim financial statements, the annual management report and the interim financial report, as well as approval of these documents;
- 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 the 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 Middlenext Code Recommendation R.5, the rules of procedure state that the Board of Directors meets at least four times per year.

In addition to mandatory dates, the Board must also meet to:

- Draw up the annual financial statements and prepare for the Annual General Meeting called to approve said financial statements;
- Report on half-year results;
- 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 or restructuring operations.

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.

Board of Directors' meetings are not valid unless at least half of its members are in attendance. The Board's decisions 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 in FY2016, on the dates listed below, with an average attendance rate of 91%:

Date	Board member attendance
February 18, 2016	100%
March 11, 2016	100%
April 08, 2016	86%
May 18, 2016	86%
July 21, 2016	100%
September 16, 2016	88%
November 30, 2016	88%
December 23, 2016	75%
January 06, 2017	100%

During FY2016, in addition to reviewing, monitoring and approving the budget for the fiscal year, drawing up the annual and interim financial statements, preparing for the General Meeting, examining agreements falling 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 21, 2016;
- Attributing stock options and free share grants;
- Approving the procedure to determine Directors' fees;
- The Company's funding;
- External growth operations.

Moreover, in accordance with Middlenext Code Recommendation R.14, the Board of Directors and the Compensation, Nomination and Governance Committee addressed the issue of executives becoming suddenly unavailable following an accident or other eventuality, as well as the matter of succession in their duties. A plan was drawn up following these discussions.

As part of this work, the Board of Directors relied on the work and recommendations of the Committees established within the Company.

Communication of information to members of the Board

In accordance with the rules of procedure, before each Board meeting Board members each receive a dossier containing the agenda for the meeting, the draft minutes from the previous meeting and any document pertaining to the different items on the agenda. The Chairman makes every effort to provide these items three to five days before each meeting. The Chairman also follows up on members' requests for additional information. Board members consider that they receive sufficient information to carry out their duties.

Furthermore, all topics addressed during the meeting are reviewed and discussed in depth among the members before being put to a vote following the discussion. Finally, in accordance with Middlenext Code Recommendation R.4, Directors are regularly kept informed between meetings when required by events within the Company.

Establishment of 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. In accordance with current legislation and Middlenext Code Recommendation R.6, the following Committees have been established within the Company:

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

The specialized committees are currently composed as follows:

Last name, First name	Independence	Specialized committees of the Board of Directors			
		Strategic Committee	Audit Committee	Compensation, Nomination and Governance Committee	Technology and Marketing Committee
Mr. de Rouvray, Alain	No	Chair		Member	Member
Mr. Chaillou, Vincent	No	Member			Member
Ms. de Rouvray, Cristel	No	Member		Chair	
Mr. des Isnards, Charles-Helen	Yes	Member	Chair	Member	
Mr. d'Hotelans, Éric	Yes		Member	Member	
Ms. Jacq, Véronique	Yes		Member		Member
Ms. Ramanathan, Rajani	Yes			Member	Chair
Mr. de Balmann, Yves	Yes				

Ms. Corinne Romefort-Régnier also attends all Board and Committee meetings as Secretary.

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 twice during the past year with an average attendance rate of 100%.

Audit Committee

In accordance with regulations 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. In addition, the majority of its members have expertise in the area of finance or accounting. The Chairman and CEO 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 administration, management and supervision, this committee is responsible, in particular, for the following tasks:

- Monitoring the process of drawing up financial documents and, if necessary, making recommendations to ensure their integrity.
- Monitoring the effectiveness of internal control and risk management systems as well as internal audit systems, if necessary, in terms of the preparation and processing of financial and accounting information, when such initiatives are compatible with the Committee's independence.
- Issuing a recommendation regarding appointment of auditors by the General Meeting, as well as regarding the potential reappointment of auditors.
- Monitoring auditors as they fulfill their duties.
- Ensuring auditors' independence.
- Regularly reporting to the Board of Directors regarding its activities. It also reports on the results of certification of financial statements, how said 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 may arise.

The Audit Committee met six times throughout FY2016 with an average attendance rate of 100%. In most cases, the statutory auditors are also invited to attend these meetings.

Compensation, Nomination and Governance Committee

As defined in the rules of procedures of the Board of Directors, the Compensation, Nomination and Governance Committee, composed of five members of whom three are independent, is responsible for (i) preparing the decisions of the Board of Directors concerning compensation of executive officers and the policy for granting stock options and/or purchase of shares, and (ii) preparing changes to the composition of the Company's governing bodies.

The Compensation, Nomination and Governance Committee met four times throughout FY2016 with an average attendance rate of 100%.

Technology and Marketing Committee

The Technology and Marketing Committee is in charge of advising the Board on aspects of product strategy, organizing the publishing company (in particular, the methodologies of product management and R&D), and evaluating 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 five times in FY2016 fiscal year with an average attendance rate of 95%.

Board assessment

In accordance with Middlenext Code Recommendation R.11, in FY2016, the Board of Directors carried out a yearly internal self-assessment of its composition, organization and mode of operation. This assessment was performed using a questionnaire addressed to each Director and including questions regarding diversification and composition of the Board. The questionnaire was discussed and summarized during the Board Retreat. Improvements were proposed during the discussion, mainly intended to enhance debates regarding future changes to the Board and to share information regarding the market.

Shareholder relations

The Board of Directors ensures that dialogue with the Company's Shareholders can always take place under the best possible conditions. In particular, Directors are invited to attend the General Meeting and analyze the results of the vote on each resolution. They pay special attention to negative votes so as to draw the appropriate conclusions before the following General Meeting. Moreover, in addition to the General Meeting, the Chief Executive Officer, Chief Operating Officers and Chief Administrative and Financial Officer regularly meet with Shareholders and Investors at individual meetings and during road shows and conferences, provided that such events do not take place during blackout periods.

2.5. Principles and rules for determining compensation

2.5.1. Compensation paid to Directors

In respect for fulfillment of their duties, Directors receive Directors' fees the overall amount of which is set by the General Meeting. These Directors' fees are distributed, upon the recommendation of the Compensation, Nomination and Governance Committee, according to the frequency of meetings, members' attendance, participation and, where applicable, duties as Chairs of Specialized committees. Special assignments entrusted to Directors are also taken into account to determine compensation. Some Directors receive specific amounts in respect of special assignments entrusted to them by the Board of Directors over a fiscal year.
Moreover, the Board may grant exceptional compensation for special assignments or mandates entrusted to Directors and subject to the procedure for approving regulated agreements.
In its eighth resolution, the Combined General Meeting of July 21, 2016 set the total compensation paid to members of the Board of Directors in the form of Directors' fees for FY2016 at €160,000, stipulating that the Board of Directors would distribute this amount among its members.
In accordance with the provisions of Article L. 225-102-1 of the French Commercial Code, please find below the total compensation received by the Directors for FY2016.

Summary table of Directors' fees and other components of compensation paid to corporate officers (Table 3 of AMF recommendations)

Directors' fees paid to executive and non-executive corporate officers	FY2016	FY2015	FY2014
EXECUTIVE CORPORATE OFFICERS			
Mr. Alain de Rouvray	10,000	10,000	10,000
Mr. Vincent Chaillou	6,000	6,000	6,000
NON-EXECUTIVE CORPORATE OFFICERS			
Mr. Jacques Dubois	N/A	4,000	6,643
Ms. Cristel de Rouvray			
– Directors' fees	17,500	47,042	45,036
– Other compensation	70,503	54,270	0
Mr. Charles-Helen des Isnards	31,500	31,033	31,500
Mr. Éric d'Hotelans	16,500	16,500	16,500
Ms. Véronique Jacq	12,182	14,078	7,363
Ms. Rajani Ramanathan	27,567	18,033	8,893
Mr. Yves de Balmann	16,750	N/A	N/A
Mr. Michel Barbier de la Serre	N/A	N/A	8,393
Mr. Francis Bernard	N/A	N/A	12,902
TOTAL			
– Directors' fees	**137,999**	**146,686**	**153,230**
– Other compensation	**70,503**	**54,270**	**0**

2.5.2. Compensation paid to Executive corporate officers

Report on the principles and criteria for attributing and distributing compensation payable to executive corporate officers in respect of their term, as provided for in Article L. 225-37-2 of the French Commercial Code

In accordance with Article L. 225-37-2 of the French Commercial Code, as introduced by the French "Sapin II" law on transparency, prevention of corruption and modernization of the economy, the General Meeting of June 29, 2017 will be asked to approve the principles and criteria for attributing and distributing compensation payable to executive corporate officers in respect of their term. This proposal will be included in Resolution 7, which appears in section 6 of this Registration Document.

In accordance with Article L. 225-37-2, it is noted that payment of variable and exceptional components for FY2017 will be subject to the approval of such amounts by the General Meeting convened to approve the financial statements for FY2017.

To date, the executive corporate officers this report concerns are the following: Mr. Alain de Rouvray, Chief Executive Officer, Mr. Vincent Chaillou, Chief Operating Officer in charge of Edition Operations, Mr. Christopher St. John, Chief Operating Officer in charge of Distribution and Support Operations.

Fundamental principles for setting the compensation of executive corporate officers

The Board of Directors refers to the recommendations contained in the Middlenext Code to determine the compensation and benefits granted to corporate officers. As such, the Company bases its compensation criteria on the following principles: comprehensiveness, balance between the different components of compensation, benchmarks, consistency, clear rules, measurability and transparency (R.13).

The Compensation, Nomination and Governance Committee bases its work on discussion sessions held throughout the year, and interim preparatory work led by the Committee Chair. At the March 28, 2017 meeting, the Compensation, Nomination and Governance Committee examined the principles and criteria applied to determine, distribute and allocate components of the overall compensation and benefits of any kind to ESI

Group executive corporate officers for FY2017. These principles and criteria will subse-quently be submitted to the General Meeting for approval.

Compensation of executive corporate officers

The Compensation, Nomination and Governance Committee puts forth a proposal to the Board of Directors regarding compensation of executive corporate officers, taking care to ensure that the rules applied to determine said compensation are consistent with the annual assessment of the Company's performance. It also takes account of Shareholders' interests, changes to the Middlenext Code and the compatibility of objectives with the medium-term strategy. The Committee establishes the structure of this compensation based on general or specific studies regarding market practices for comparable companies. It ensures that no item of compensation is disproportionate and analyzes compensation as a whole, taking account of all related components: fixed and variable compensation, long-term, share-based compensation plans and benefits of any kind.

Fixed compensation

Fixed compensation paid to executive corporate officers is determined based on the level and complexity of responsibilities, individuals' experience in the position and length of service in the Group, as well as practices observed in groups or companies of similar size. It is reviewed regularly. Fixed compensation paid to executive corporate officers has remained unchanged since 2015 (2014 for the Chief Executive Officer) and was renewed in the same amount for FY2017.

Variable compensation

Executive corporate officers receive a variable component of annual compensation, calculated on the basis of demanding, precise, 100% quantitative and pre-established criteria set out by the Board of Directors acting on the recommendation of the Compensation, Nomination and Governance Committee. This variable compensation must be in line with the Company's medium-term strategy and Shareholders' interests. The maximum amount of compensation is reviewed on a regular basis. Variable compensation must not lead to excessive or inappropriate risks. To this end, it remains fair compared to the fixed component. Variable compensation paid to executive cor-porate officers has remained unchanged since 2015 (2014 for the Chief Executive Officer) and was renewed in the same amount for FY2017.

Long-term share-based compensation

The Group's long-term compensation policy reflects an overarching competitive strategy of promoting loyalty and motivation among managers and employees, while taking account of market practices. Each long-term compensation plan is submitted to the Annual Ordinary General Meeting of Shareholders for approval.

The Group's long-term compensation policy is adjusted according to the population in question.

The Chief Executive Officer is not eligible for long-term compensation due to his position as a founding Shareholder of the Company. Chief Operating Officers may participate in the stock option plans and free share plans offered as part of the employee loyalty and motivation policy. The conditions governing acquisition and ownership of shares under these plans apply equally to all beneficiaries, regardless of status as corporate officers.

Benefits in kind

Benefits in kind include various components determined by the personal situation of corporate officers:

- Company car or equivalent allowance;
- Housing allowance in the event of an assignment away from home.

Exceptional compensation

When warranted by extremely special circumstances (e.g. significance for the Company, commitment required or challenges involved), executive corporate officers may be eligible for exceptional compensation. The decision to grant such compensation must be exceptional, justified and explained by the Board. Payment is subject to approval by the Annual Ordinary General Meeting of Shareholders.

Commitments in favor of executive corporate officers

Severance pay

No severance pay is provided for with regard to executive corporate officers.

Non-competition benefit

Executive corporate officers are not eligible for specific benefits other than those provided for in their corporate officer contract.

Supplementary retirement plan

No supplementary retirement plan is provided for with regard to executive corporate officers.

Provident scheme and healthcare expense reimbursement plan

Executive corporate officers are eligible for the provident scheme and healthcare expense reimbursement plan open to all employees.

Prohibition on combining employment contract and corporate office

Upon proposing a nomination for the position of Chief Executive Officer or Chief Operating Officer, the Board of Directors decides on the suspension of the nominee's employment contract, unless otherwise stipulated by the General Meeting of Shareholders.

Summary table of allowances and benefits for executive corporate officers (Table 11 of AMF recommendations)

Executive corporate officers	Employment contract		Supplementary retirement plan		Payments or benefits due as a result of termination or change in position	
	Yes	No	Yes	No	Yes	No
Mr. Alain de Rouvray Chairman and Chief Executive Officer		X		X		X
Mr. Vincent Chaillou Chief Operating Officer	Suspended			X		X
Mr. Christopher St. John Chief Operating Officer	Suspended			X		X

Summary table of compensation and stock options granted to each executive corporate officer, in euros (Table 1 of AMF recommendations)

	FY2016	FY2015
ALAIN DE ROUVRAY		
Compensation owed for the year	610,059	593,769
Value of multi-year variable compensation granted during the year	None	None
Value of stock options granted during the year	None	None
Value of free shares granted during the year	None	None
Value of provisions for post-employment benefits	None	None
VINCENT CHAILLOU		
Compensation owed for the year	265,235	251,837
Value of multi-year variable compensation granted during the year	None	None
Value of stock options granted during the year	None	None
Value of free shares granted during the year	147,950	None
Value of provisions for post-employment benefits	74,456	74,456
CHRISTOPHER ST JOHN		
Compensation owed for the year	268,490	251,853
Value of multi-year variable compensation granted during the year	None	None
Value of stock options granted during the year	None	None
Value of free shares granted during the year	147,950	None
Value of provisions for post-employment benefits	22,206	22,206

Summary table of compensation due and paid to each executive corporate officer, in euros (Table 2 of AMF recommendations)

Mr. de Rouvray	2016		2015	
	Amounts owed	Amounts paid	Amounts owed	Amounts paid
Salary	362,136	362,136	362,554	362,554
Bonuses	80,394	63,430	63,503	60,261
Directors' fees	10,000	10,000	10,000	10,000

Benefits in kind	157,529	157,529	157,711	157,711
TOTAL	**610,059**	**593,095**	**593,769**	**590,527**

Mr. Chaillou	2016		2015	
	Amounts owed	Amounts paid	Amounts owed	Amounts paid
Salary	198,550	198,550	198,550	198,550
Bonuses	53,280	52,842	39,827	20,194
Directors' fees	6,000	6,000	6,000	6,000
Benefits in kind	7,405	7,405	7,459	4,681
TOTAL	**265,235**	**264,797**	**251,837**	**229,425**

Mr. St. John	2016		2015	
	Amounts owed	Amounts paid	Amounts owed	Amounts paid
Salary	177,650	177,650	177,650	177,650
Bonuses	48,840	43,925	32,203	39,706
Benefits in kind	42,000	42,000	42,000	42,000
TOTAL	**268,490**	**263,575**	**251,853**	**259,356**

Share subscription and purchase options granted (Tables 4, 5 and 8 of AMF recommendations)

A record of previous share subscription and purchase options can be found in section 7 of this document.

Share subscription or purchase options granted to executive corporate officers during FY2016

No share subscription or purchase options were granted to executive corporate officers during FY2016.

Performance shares granted to corporate officers (list of names) during FY2016

No performance shares were granted to corporate officers during FY2016.

STOCK OPTIONS EXERCISED BY EACH EXECUTIVE CORPORATE OFFICER DURING FY2016

No share subscription or purchase options were exercised by corporate officers during FY2016.

Free shares granted to each corporate officer (Tables 6 and 7 of AMF recommendations)

Name of corporate officer	Number and date of plan	Number of free shares granted	Value of shares according to the method used for the consolidated financial statements	Date of delivery	Date of availability
Christopher St. John	No. 6 (July 21, 2016)	5,000	147,950	2018	2020
	No. 14 (June 26, 2012)	3,100	75,609	2016	2016
Vincent Chaillou	No. 6 (July 21, 2016)	5,000	147,950	2018	2020
	No. 14 (June 26, 2012)	3,600	87,804	2016	2016
TOTAL		**16,700**	**459,313**		

A record of previous free share grants can be found in section 7 of this document.

2.6. Internal control and risk management procedures

2.6.1. Control environment

General organization

ESI Group is a multinational corporation that includes 35 subsidiaries (the "subsidiaries"), 30 of which are based 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, as regards the distribution of products.

Given current constraints, particularly regarding the size of the subsidiaries, available human resources and regulations that differ from country to country, the Group's 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 hierarchical levels to streamline decision-making processes;
- A relatively small size for efficient communication among the various departments.

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

- Ensuring that management activities and operations, as well as employee conduct, are in keeping with the guidelines set out 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 of error or fraud, especially in the areas of accounting and finance;
- Verifying that the accounting, financial and management information reported to corporate bodies, Shareholders and third parties accurately reflects the Company's position and the business situation.

Persons responsible for internal control

Within the Company

The Board of Directors

The Board of Directors is responsible for the Company's risk assessment policies, implementation of an internal control system suitable for managing these risks and initiatives to monitor the effectiveness of this system. This policy features a system of checks and procedures regarding financial management, as well as operational and compliance monitoring.

Group Executive Committee

The Group Executive Committee oversees the internal control policy. The Committee generally meets once a month.

Board Retreat

The Board Retreat takes place 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. It serves to assess the activities of the Board of Directors and the Specialized Committees, review ongoing strategic matters and define specific objectives to be achieved during the following year, which are then submitted to the Board of Directors for approval. The Board Retreat also analyzes the results of the self-assessment carried out by the Board of Directors and the Specialized Committees, and reviews the issue of balance of powers within corporate governance bodies.

The 2016 Board Retreat took place in September, and the 2017 meeting is slated for August.

Operational departments

These departments primarily 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, distribution network, partnerships, responsiveness, assessment of potential economic benefits, negotiation and signing of contracts, profitability monitoring;

- Effective project management: evaluation of technical feasibility, team management and leadership, 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) Administration and Finance Department

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

- Establishing the operating procedures for the internal control system;
- Holding meetings between the managers of the major business units and the main entities of the Company to review responsibilities and the structure of the internal control system across the various businesses.

The Administration and Finance Department comprises the following units:

- Accounting and Consolidation, in charge of:
  - recording transactions on a daily basis,
  - producing the financial statements at the end of each period,
  - drawing up the Group's consolidated financial statements,
  - ensuring compliance with legal, tax and labor obligations;
- Controlling, in charge of:
  - preparing and monitoring the budget,
  - issuing periodic reporting,
  - 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) Legal Affairs Department

The Legal Affairs Department is divided into two branches:

- The Corporate Legal Affairs branch which is responsible for monitoring and streamlining procedures, as well as corporate legal intelligence and coordinating the legal aspects of the operations of Group subsidiaries;
- The Intellectual Property branch, which reviews, drafts and negotiates various contracts with clients and partners in the industry, government bodies and academic institutions to ensure that the Group's intellectual property rights are protected.

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

c) Quality Control Department

Under the supervision of Executive Management, the Quality Control Department is responsible for implementing the quality control policy and the corresponding system, in keeping with Group strategy and the following four pillars:

- Organization and learning: Strengthening employees' skills and motivation in line with the “One ESI” corporate culture;
- Internal processes: Overall management of quality to facilitate harmonization, development of a risk-management culture, simplification of processes and performance enhancement;
- Clients: Identifying and meeting clients' needs, with a particular focus on sales and management of client accounts, especially in highly competitive sectors facing increasing regulations, with an eye to promoting the Virtual Prototyping approach in a spirit of co-creation ;
- Profitability: internal organization by business unit to optimize monitoring and continuous improvement of performance in terms of growth and profitability.

d) Human Resources Department

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

ESI Group's Human Resources policy has four main components:

- Personnel management;
- Performance management;
- Compensation management;
- An advisory function for operational staff.

Personnel management includes the following activities and initiatives:

- Ensure compliance with all legal and regulatory requirements;
- Administer payroll and personnel files;
- Oversee and manage labor relations;
- Ensure that employment reporting is carried out and produce performance indicators;

- Ensure that employees are kept properly informed;
- Ensure that information is relayed to senior management;
- Develop Group HR procedures.

Performance management entails attracting, integrating, retaining and developing the highest level of performance for each employee and ensuring adherence to the Company's strategy.

- Recruitment: employment management, anticipating skill needs both qualitatively and quantitatively;
- Training: identifying needs, preparing a training plan and implementing in-house and external training courses;
- Performance evaluation: employee reviews, personal development plans, identifying potential, career planning and promotions.

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

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

Advising operational staff: fostering independence among Managers on employment issues by offering them assistance in the field on a day-to-day basis, and by providing them with 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 regional Directors of Human Resources. Regional HR Directors coordinate implementation of these objectives in collaboration with a team of HR operating managers located in each country, and with support from the central HR department.

Third-parties of the Company

Statutory auditors

The statutory auditors, who certify the regularity, truthfulness and the fair presentation of the financial statements provided to the Shareholders at the balance sheet date, may include in their audit opinions, recommendations regarding the internal control system used to prepare financial information.

Legal counsel

The Company calls on renowned law firms for dispute management, as well as a tax advisory firm. The Company also calls on specialists from time to time to review the legal aspects of complex mergers and acquisitions.

2.6.2. Organization of internal control

The increasingly international nature of our business and the cross-organizational character of projects involving international interactions of ever-greater complexity and speed have highlighted the need for more rapid and efficient methods and operational management tools, both centrally and in the subsidiaries.

The Administration and Finance Department is organized so as to ensure internal control in the following three areas:

- An organization and network of local financial controllers located in most of the Group's subsidiaries;
- Centralized tools and databases;
- Processes to organize reporting and control of financial information.

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 overseen by a regional financial controller. Each local and regional financial controller, while reporting to his or her local manager (the head of the local entity) from an organizational standpoint, is hierarchically and functionally attached to the Administration and Finance Department and, ultimately, to the Group Chief Administrative and Financial Officer. 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 controller. In addition to this network, a central team of six financial controllers is distributed among the three principal business lines of the Group, namely Edition Operations, Distribution and Support.

The management information system

Financial control is based on a management IT system consisting of the following centralized tools and databases:

- A single sales database (SalesForce) serves as the backbone of the organization and internal control system for sales. This data flows into a single financial database (NCA) to determine monthly revenues and the order book;
- A financial consolidation tool, Talentia CPM, which enables the Company to centralize financial data from the various accounting departments of subsidiaries. It should be noted that subsidiaries account for their operations using their own accounting systems and ensure proper reporting of data to the parent company using consolidation packages which are all centralized and processed using Talentia;
- An HR data management tool called HR-Information System (HR-IS base) allows for Group-level consolidation of data relating to salaries and headcount. In particular, this tool makes it possible to monitor the different of steps in the hiring process and provide managers with any information necessary to optimize management of their teams. HR-IS data is included in the source information used for financial reporting regarding employees.

Main accounting and financial information monitoring processes

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

Consolidation process

The process of preparing the consolidated financial state-ments follows procedures to centralize the accounting and financial data provided by each entity with the Group. These procedures include:

- A reporting schedule and calendar of tasks to be carried out by the persons involved;
- Use of a specialized consolidation software package;
- A distinction between preparation of consolidated financial information, performed by the consolidation manager, and control activities performed by the central financial controllers and the Chief Administrative and Financial Officer;
- Assistance from accounting experts for certain sensitive and technical issues, especially for subsidiaries outside of France;
- A review of the interim and yearly financial statements by statutory auditors, the Audit Committee and the 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 laid out the preceding year for the three-year business plan, and the five-year strategic objectives reviewed annually by senior management. Throughout the year, a monthly reporting system serves to:

- Monitor the budget so as to track the amount, nature and allocation of expenses compared to the current year's budget;
- Set out monthly forecasts used to predict earnings, initially for the first half year, and subsequently for the second half.

Controlling thus provides key management indicators used to monitor the Company's performance. These indicators, reported to executives, provide the information necessary for management of the Company. They include, among other indicators:

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

In conjunction with the budgeting and reporting process, the Company has implemented a structure based on Performance Units, each with a manager in charge of overseeing the unit based on key performance indicators (KPI) in a balanced scorecard format. These indicators cover four areas: financial, sales, internal processes and organization and learning.

Revenue recognition process

The Finance Department is responsible for the accuracy of revenue recognition and ensuring:

- Consistency between actual revenues and contractual data as regards the Licensing Division;
- The accuracy of billing information;
- The exhaustiveness of the services invoiced, primarily for the Service Division.

Client risk management process

Client risk is managed at two different levels:

- Upstream, by assessing client risk before processing orders;
- Downstream, through a periodic follow-up procedure suited to each client 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 Administrative and Financial Officer, with the support of cash management teams, 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 level of various cash surplus investments;
- Foreign exchange risks, in order to take any necessary corrective action;
- Implementation of loans necessary for growth of the Company.

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

Payroll management process

The payroll process falls under the responsibility of the Director of Human Resources and involves:

- Processing the various items involved in calculating salaries;
- Entering payroll information in the accounting system;
- Provisioning for paid vacation in order to distribute the expense over the full year;
- Ensuring compliance with labor-related reporting obligations.

2.6.3. Risk management

Process management and ISO 9001:2008 certification

The Company, which has been granted ISO 9001:2008 certification, has oriented its quality control procedures toward developing a worldwide certification for the entire Group, aiming to include all its subsidiaries whether or not they are already certified. This process, combined with the new requirements of the ISO 9001:2015 standard, is an additional asset to strengthen process-based management and facilitate 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 data recovery, additional operat-ing 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 "employer liability" and/or "workers' compensation" policies and automobile-related risks, are excluded from this policy.

The French policy (head office 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.

ESI Group has also taken out an insurance policy covering civil liability of the managers and corporate officers of the Company and its subsidiaries (D&O), as well as insurance policies covering the Company's key protagonists.

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

2.7. Statutory Auditors' report, prepared in accordance with article L.225-235 of the French Commercial Code on the report of the Chairman of the Board of Directors of ESI Group

This is a free translation into English of the Statutory Auditors' report on the report of the Chairman of the Board of Directors of ESI Group issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended January 31, 2017

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, 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, 2017.

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 additional information required under Article L.225-37 of the French Commercial Code relating in particular to corporate governance.

It is our responsibility to:

- Report to you on the information contained in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- Attest that the report contains the other information required under Article L.225-37 of the French Commercial Code, it being specified that we are not responsible for assessing 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

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 entailed:

- 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 provided in the report and of the existing documentation;
- Determining whether 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 comments or reservations regarding the information provided 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.

Other information

We attest that the Chairman's report contains the other information required by article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris-La Défense, May 18, 2017

The statutory auditors

PricewaterhouseCoopers Audit	Ernst & Young Audit
Thierry Charron	Frédéric Martineau

3 CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

ESI Group joins the Gaia Index

ESI Group tied for first place in the 2016 Gaia ranking, in the category of companies with revenue of less than €150 million (up from third place in 2015), and for the first time was included in the Gaia Index, made up of the top 70 out of 230 companies.

The Gaia Index (www.gaia-index.com) was created in 2009 and is now the benchmark sustainability index for medium-sized listed French companies. Developed by EthiFinance, (www.ethifinance.com) the Gaia Index selects small and medium-sized companies based on their non-financial performance.

Gaïa-Index EthiFinance

3.1. ESI Group policy in terms of social and environmental responsibility

Aware of its responsibility in each of the three pillars of sustainable development, ESI Group has gradually devised a CSR policy that contributes to shared economic and social development and the preservation of human equilibrium.

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 customers, able to understand and assist them in their approach in bringing to market innovative, quality products that are also sustainable, ethical and highly resource-efficient.

Within the Group, the CSR policy is seen as a genuine corporate commitment and one that will create value. ESI Group 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 fourth CSR report outlines a wider scope as described in section 3.1.3.

3.1.1. Our CSR approach

In 2013, the Group carried out diagnostics that enabled it to draw up an inventory of the existing process, assess the measures and initiatives taken in support of sustainable development, and identify the relevant indicators, all of 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.

Since then, ESI Group has been dedicated to developing actions that uphold these beliefs in terms of social and environmental responsibility.

3.1.2. Commitments

Divided into four axes and expressed as eight commitments, the CSR strategy aims at ensuring harmonious work conditions for its employees, providing its customers with innovative solutions that allow them to become long-term partners, and limiting the Group's and its customers' environmental footprint while acting ethically and responsibly within civil society.

3.1.3. Methodology

Data collection and consolidation

Qualitative and quantitative information is collected and consolidated at the Group's head office.

Social reporting is covered by an HR officer who works with local HR representatives. The corporate communication team is responsible for environmental and societal reporting through local professional representatives.

The Group plans to gradually broaden 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 = the United States and Brazil;
- Asia-Pacific = China, India, Japan, Malaysia, South Korea and Vietnam;
- Europe, Middle East and Africa = Czech Republic, France, Germany, Italy, Netherlands, Russia, Spain, Sweden, Switzerland, Tunisia and the United Kingdom.

Scope

In keeping with its commitments, in 2016 ESI Group continued its actions to expand the collection and analysis of indicators internationally.

- Scope of social reporting:

  Since 2012, most indicators analyzed for the entire workforce have been managed on a single source using the employment data management software (called HR-IS, or Human Resources Information System). Along with this analysis is the annual worldwide survey initiated in 2014 on the operations, legislation, practices and norms of the different subsidiaries. This gives the Group a reliable, international picture of all employment indicators. One exception remains, however, concerning the absenteeism rate, which not all subsidiaries are able to report in a sufficiently reliable way, due partly to terminology and partly to local practices. To remedy this situation, these indicators previously provided only for France, Germany, the Czech Republic and Japan for the year 2015 are being reviewed for a total of 13 countries for 2016.

- Scope of environmental reporting:

In 2016, the Company included Tunisia and India to expand the scope of reporting for environmental data. As a result, environmental data are now provided for France, Germany, the Czech Republic, Japan, the United States, Tunisia and India, representing 85% of the total workforce.

- Scope of societal reporting:

Societal information is provided at a global level, with the reporting scope covering 100% of our headcount.

3.1.4. ESI Group values

The values of ESI Group infuse our recognized organization with a culture and an ambition that have produced innovation for the benefit of the Group's customers and employees for more than 40 years. These values—Passion, Global, Change, Trust, Social Re-sponsibility and Energy—anchor the Group's identity and fit logically together, as can be seen in the corporate social responsibility actions defined below.

3.2. Being a committed employer

ESI Group aims to be a leading employer among all software and service providers on the market and plans to stay that way.

This strategy is based on the following principles:

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

This strategy draws on various tools, including the Human Resources Information System (HR-IS) to consolidate 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 Group Executive Committee in order to measure the effectiveness of HR policies.

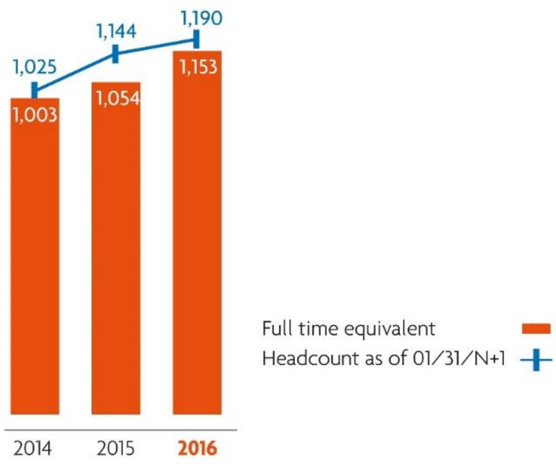
The data from HR-IS are provided on a worldwide scope.

3.2.1. Employee headcount

ESI Group's employees consist primarily of highly-trained engineers and Ph.D.s from prestigious universities and institutes worldwide. In addition to the close relationship that the Group 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. These factors include 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 is calculated on the number of employees as of January 31, 2017.

CHANGE IN HEADCOUNT OVER THREE YEARS



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

On January 31, 2017, the ESI Group workforce consisted of 1,190 employees, compared to 1,144 for FY2016, and in-cluded 11 employees from companies acquired over the period. The average headcount in 2016 was 1,153 em-ployees, compared 1,054 in 2015.

The percentage of the Group's workforce on permanent contracts was 94.8%. Limited employment contracts such as internships and apprenticeships account for 2% of the total workforce.

In 2016, ESI pursued its ambition to manage its staff in connection with business growth. These figures should be analyzed in light of the mergers and acquisitions carried out over the period.

3.2.2. Develop talents and encourage leadership and collaborative management

Human resources are ESI's greatest source of value. Developing talent is key to ensuring the Group's long-term viability. To meet the ever more complex issues manufacturers face, and to remain on the cutting edge of technological innovation, the Group must build employee loyalty and continuously enhance employees' expertise. Furthermore, the Group's sheer size and its distribution in numerous countries mean that many projects involving various entities and cultures must be managed on a Group-wide scale. Leadership, expertise and collaborative management are essential qualities that will make ESI Group successful at what it does.

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, a welcome portal was designed on the internal website to guide new hires through the steps of onboarding and guarantee individual access to a unique level of information to support them in their first days, weeks and months at ESI Group.

The Group has defined an internal mobility program enabling each employee to express their motivations and thereby highlight their skills and expertise by applying for positions available within the Group.

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.

In 2016, 96% of all Group employees received a performance evaluation interview.

Building on this continuous progress since 2013, in February 2017 the Group computerized the management of these annual interviews.

The initial phase of integrating annual interviews into the computer system is underway in the Americas, Europe and India, and will be extended with the integration of Asia to cover the entire scope by 2018. This new phase in the performance evaluation process aims to enhance annual interviews by promoting data exchange, monitoring and archiving, especially for remote teams. It also provides better access to performance data, employee satisfaction, and professional and training objectives to help foster more proactive and advanced management of development. These assessment interviews are the means for collecting information as to training needs and staff development, and they 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 professional development in place 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.).

In 2016, 583 employees, or 49% of the workforce, received training, at a cost to the Company of €361,000. In total for 2016, 9,033 training hours were provided, or an average of 15.4 hours of training per employee trained.

Actions supporting apprenticeship

Numerous partnership agreements have been signed with universities and engineering schools that allow ESI Group to play an active role in the training of young people. In Europe and North Africa, one can point to the École Centrale 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 integrated 57 students in 2016 (48 interns, five apprentices and four doctoral students).

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. Various initiatives have been launched in different countries in recent years to enhance employee well-being. These actions are under the responsibility of the local Human Resources Departments, who work with employee representative bodies such as the France’s Health, Safety, and Working Conditions Committee (CHSCT).

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

3.2.3. Promote diversity and multicultural exchanges

Diversity is one of the values emphasized by the Group because it enriches society.

The power of ESI Group’s highly innovative solutions has made it possible to develop successfully worldwide. As an international company, ESI Group is proud to have a diverse, multicultural workforce.

The Group has always valued difference and encouraged its employees to share their ideas beyond borders to create a modern and efficient work environment to better serve its international customers. ESI Group endeavors to boost its expertise all the time by bringing in top talent from around the world.

The charts below present a breakdown of employees by region and by country.

EMPLOYEE DISTRIBUTION BY REGION

	2016	2015
Americas	11.1%	10.8%
Europe, Middle East and Africa	56.4%	55.7%
Asia-Pacific	32.5%	33.6%

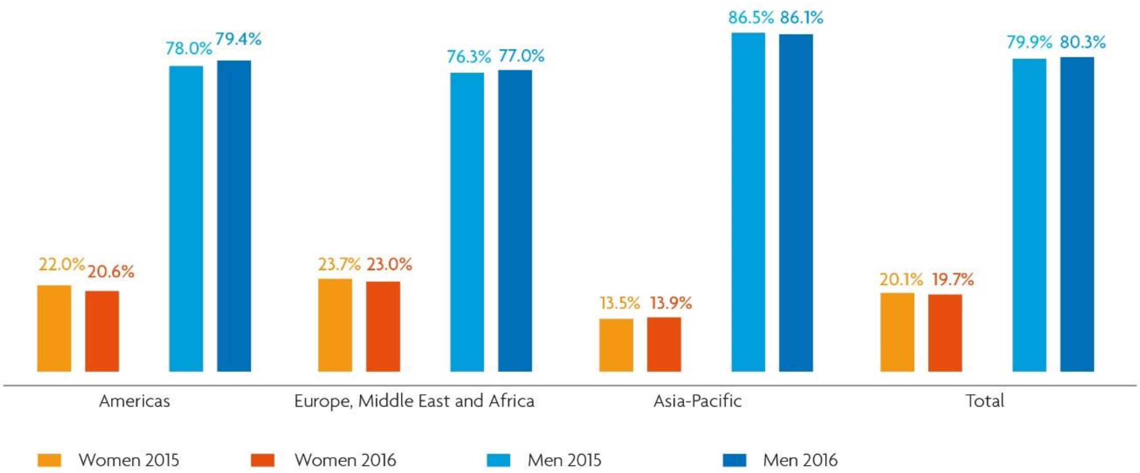
Note: Among the 56.4% of employees located in the Europe, Middle East and Africa region, 54.4% are located in Europe.

EMPLOYEE DISTRIBUTION BY COUNTRY

	2016	2015
Brazil	0.8%	0.9%
China	2.9%	3.2%
Czech Republic	6.1%	5.9%
France	24.9%	24.5%
Germany	16.6%	15.9%
India	19.0%	19.7%
Italy	1.3%	1.2%

Japan	6.2%	6.2%
Malaysia	0.3%	0.3%
Netherlands	0.2%	0.2%
Russia	0.5%	0.4%
South Korea	3.0%	3.3%
Spain	1.4%	1.4%
Sweden	0.8%	0.7%
Switzerland	1.3%	1.5%
Thailand	0.2%	0.1%
Tunisia	2.0%	2.4%
United Kingdom	1.4%	1.6%
United States	10.3%	9.9%
Vietnam	0.9%	0.7%

GENDER BREAKDOWN AND EQUALITY



The percentage of women among permanent employees was 19.7% in 2016, 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 in such institutes has begun to rise in recent years but remains very low in post-secondary engineering courses (19.8% in 2014). Female students are much better represented in biology, social sciences and psychology (51%, 58% and 70% respectively in 2014). These figures show that women are more highly represented in sectors dealing with psychology or healthcare (72.8% and 69.9% respectively) and much less so in engineering (14.5%) (source: NSF report – *Women, Minorities, and Persons with Disabilities in Science and Engineering* – January 2017).

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 2016, 50 women joined the Group, which represents 25% of total new recruits.

The Group strives to ensure that all its subsidiaries comply 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

The Group complies with laws and regulations banning any form of discrimination based on age, race, gender, ethnicity, nationality, religion, health, disability, marital status, sexual orientation, political or philosophical opinions, trade union affiliation or any other aspect protected by local legislation. Furthermore, the Company does not tolerate any form of sexual, physical or moral harassment, coercion or bullying.

To provide more detailed information, particularly with respect to 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, and 13.9% of these managers are women.

Inclusion of employees with a disability

The Company has taken steps to ensure that employees with a disability have access to all advertised positions. Since the beginning of 2017 at its Rungis site in France, the Group has been working with Cèdre, which is within a special category of company that aims to create permanent jobs for people with disabilities.

Employer-employee dialogue

The quality of the employer-employee relationship is a key factor in determining the quality of life in the workplace and company productivity. In addition to complying with regulatory requirements, healthy employer-employee dialogue improves the company's performance in both of these areas. A strong relationship between employer and employees is guaranteed through frequent exchanges between the Group's management and the employees plus their representatives.

The employee representative bodies are appointed in accordance with the applicable laws in their respective countries. We had 14 employee representative bodies at our various sites in Europe and Asia-Pacific. These bodies, based in the United Kingdom, France, Germany, China, Japan and India, involved a total of 42 employees who actively participated in a total of 60 meetings during 2016.

Summary of agreements

- 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.

Internal communication

ESI Group has introduced several communication tools so that its employees stay well-informed while working across over 20 countries.

A welcome portal was integrated into the Group's internal website to teach new employees about the Group and its structure and values, and also to provide access to the information they need to help their integration go smoothly. Chatter, an enterprise social network, allows all employees to share ideas and inform each other about a wide range of topics.

Multiple communication initiatives are available to strengthen information sharing and cohesion within the Group, such as global presentations, monthly newsletters, Flash Corporate News bulletins, corporate and products webinars, and Virtual Coffee Breaks.

3.2.4. Other indicators

ESI Group reports on other employment indicators required by Articles L. 225-102-1 and R. 225-104 to R. 225-105-2 of the French Commercial Code.

Work schedules

In 2016, 4.2% of the total workforce was part-time; additionally, most part-time jobs are created to meet the needs of employees who request them to plan around their parental leave or retirement, or to go back to school.

The length of the work 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 work week following France's "RTT" (days off) law to reduce work hours.

Employee distribution by activity

	2016	2015
Cost of sales Licensing	9.3%	9.2%
Cost of sales Consulting and Support	21.3%	23.0%
Research and Development	34.4%	33.1%
Sales and Marketing	23.0%	22.7%
General and Administrative	11.9%	12.0%

Licensing

These teams are made up of engineers in charge of providing customers with technical support, distributing software and handling royalties on third-party products.

Research and Development

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

R&D teams are primarily located in India, France, Germany and the United States.

Sales and Marketing

These teams include, 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.

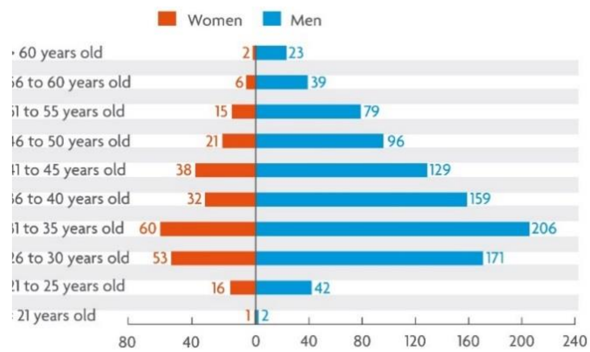
Consulting and Support

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

General and Administrative

This category consists of employees from the Finance, IT, Human Resources, Quality and Legal departments, along with a portion of our management teams.

Workforce breakdown by age



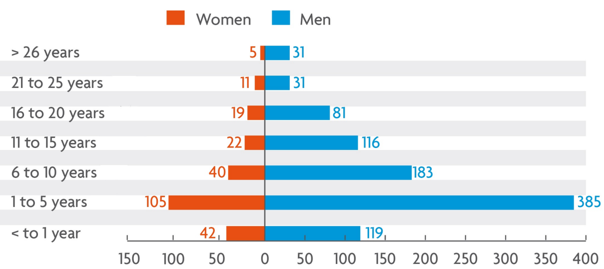
The average age of employees is 38.5 (male employees 38.8, female employees 36.8).

ESI Group is compliant with laws promoting hiring and re-taining people regardless of age. As such, 15.6% of em-ployees are aged 50 or more, i.e. 185 people worldwide (157 men and 28 women).

Of those aged 50 and older, 67.8% are located in Europe, compared to 20% in the Americas and 10.3% in Asia.

In addition, 41.5% of Group employees are under 35, which contributes to youth employment overall. In 2016, 73.6% of employees hired were under 35.

Workforce breakdown by seniority



The average seniority in the Group is seven years. This relatively low level is due on the one hand to the high proportion of employees under 35 (41.5%), 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 seniority for employees over the age of 35, however, is 10.5 years.

Employee turnover

Recruitments	2014	2015	2016
EUROPE, MIDDLE EAST AND AFRICA	97	93	120
Apprenticeship/internship	35	39	29
Temporary contracts	4	6	25
Permanent contracts	58	48	66
AMERICAS	25	31	21
Apprenticeship/internship	11	5	9
Temporary contracts			1
Permanent contracts	14	26	11
ASIA-PACIFIC	57	58	45
Apprenticeship/internship	1	8	5
Temporary contracts	12	8	10
Permanent contracts	44	42	30
GRAND TOTAL	**179**	**182**	**186**

Departures	2014	2015	2016
EUROPE, MIDDLE EAST AND AFRICA	90	84	82
Apprenticeship/internship	34	37	29
Temporary contracts	7	4	9
Permanent contracts	49	43	44
AMERICAS	27	34	24
Apprenticeship/internship	7	6	8
Temporary contracts	1		
Permanent contracts	19	28	16
ASIA-PACIFIC	39	40	37
Apprenticeship/internship		1	
Temporary contracts	7	14	7
Permanent contracts	32	25	30
GRAND TOTAL	**156**	**158**	**143**

In 2016, ESI Group hired 107 employees on permanent contracts. In addition to these hirings, 11 employees were incorporated over the course of the year due to mergers.
The departure rate of permanent employees in 2016 was 7.8% [(departures/average headcount) x 100] compared to 10.2% in 2015.
The 2016 turnover rate excluding temporary employees was 10.1% [((departures in year N + new hires in year N)/2)/average headcount in year N-1] x 100] compared to 11.9% in 2015.

Employee turnover is declining, with a total improvement of 2.1 points over the past three years.
ESI's turnover rate is below the high rate typical of the service sector, at 16% according to the BenchmarkPro study conducted with 30,000 companies in 2016 by ComptData Surveys.
The change in this indicator has encouraged the Group to continue its efforts in boosting employee loyalty, particularly by developing internal mobility.

Absenteeism

Absenteeism is monitored locally in accordance with the regulations in force in the various countries where ESI Group 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);
- An illness that befalls an employee solely due to his or her work in the Company (occupational illness).

Information on absenteeism was gathered for a scope covering 66.8% of the Group in 2016. France, Germany, the Czech Republic, Spain, Russia, the United Kingdom, Brazil, China, South Korea, Vietnam and Japan all reported their absenteeism data. 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 % OF TOTAL DAYS WORKED)

Illness	35%
Long-term illness	13%
Maternity leave	12%
Paternity leave	10%
Parental leave	25%
Leave for personal reasons	5%

In 2016, absences related to birth, adoption, or raising of one or more children represented almost 50% of absences within the selected parameters. This can be partly explained by the high proportion of employees under the age of 40 years old within the Company.

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

Health and safety

ESI Group has set an objective to provide high-quality welfare coverage for all its employees throughout the world with regard to healthcare, aging, disability and death. This coverage 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, which is currently looking into offers with a local healthcare provider. In addition, eight subsidiaries in Europe and two in Asia-Pacific have a provider whose mission is to monitor and advise the Company and its employees about risks related to workplace health and safety. In all, 30 employees are involved in these local organizations.

Compensation policy

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.

A FCPE, or corporate mutual fund, for employee shareholders was set up in France in 2013 to collect future profit-sharing amounts and voluntary contributions within the Company savings plan. This FCPE allows employees to buy Company shares, with the employer matching contributions of 100% for up to €400 per year. Over this amount, ESI matches 20% of employee contributions in an amount ranging from €401 to a maximum of €2,000. At January 31, 2017, the FCPE owned 32,260 Company shares.

3.3. Being an outstanding partner

The Group solutions help its customers cope with the challenges of their digital transformation. These solutions meet the continuously changing regulations that govern the Group's businesses, in order to:

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

3.3.1. Innovative, high-quality solutions

Innovative solutions

How can an organization bring innovative products to market while keeping costs and deadlines reasonable? How can an organization integrate new materials and processes safely? How can an organization reduce the impact of these new materials, such as composites, on product performance and integrity? What are the best practices for optimizing the product lifecycle and maintenance costs? What processes will ensure that recycling requirements are met?

To meet its customers' demand for ever more innovative products, the Group offers Virtual Prototyping solutions that save manufacturers and their subcontractors significant amounts of time and money, and therefore support their efforts to innovate. These are all key advantages that help customers keep up with international competition.

ESI Group gives its customers the capacity to perform virtual simulations as of the preliminary design phase, during detailed design phases, and throughout the product lifecycle, and also to approve the performance of their complete digital model step by step before producing a physical prototype. This approach makes it easier to make key decisions very early in the process. Innovation is made possible through reliable virtual prototypes and helps customers get their product right on the first time.

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 client satisfaction. 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, this worldwide certification is a sign of confidence in the quality of the solutions that the Group offers its customers and guarantees that particular attention is paid to excellence and to the alignment of all the Group's processes.

In 2016, the overall certification applied to 88% of the workforce, up from to 83% in 2015.

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 (which now includes the Pune and Bangalore sites), ESI SW Germany, ESI NA in the United States, ESI Mecas in Czech Republic, ESI Service Tunisia, ESI GmbH, ESI Korea and ESI China. 2016 also proved to be very successful with the integration of two new entities—ESI Italia and ESI Hispania—and the gradual rollout of the risk-based approach to meet the new ISO 9001:2015 standard. ESI Group's objective is to have full global certification by 2020. The roadmap is updated every year to identify new entities to bring under the Group, taking account of their impact on business, new acquisitions and the associated risks and opportunities.

The benefits of ISO 9001 certification accrue to external as well as in-company stakeholders. Outside the Company, certification guarantees that ESI Group provides products and services that meet the needs of its clients, 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.

All people hired in France (including all types of contacts of more than six months) have to undergo training in Quality in the year following their hire. The objectives of this training are to:

- Understand the quality management system;
- Realize the importance of complying with defined rules and to grasp how each employee contributes to making the quality system work.

In 2016, this represented 21 persons for a total of 42 hours of training.

3.3.2. Build long-term, trusting relationships

Subcontractors and suppliers

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

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 Group.

To provide its customers with quality products, ESI Group monitors and regularly evaluates all suppliers having an effect on quality through a questionnaire completed in-house to assess the supplier based on the service provided. A list of approved suppliers is made available for this purpose on the intranet and updated periodically.

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 that meet the needs of its customers.

Purchasing decisions are made based on an objective assessment of the reliability and integrity of the supplier or subcontractor, as well as on 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 become dependent on suppliers or subcontractors.

Also, the Company requires its suppliers and subcontractors to comply strictly 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 offer or accept gifts worth more than the amounts set by the law or in-house policies. It is also 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 involving the Company.

Moreover, ESI Group is prohibited from directly or indirectly receiving, 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 related to criminal activity. The Group's Ethics Charter stipulates that ESI Group comply with laws on fraud and money laundering and conduct business only with reputable partners.

Moreover, each employee must be vigilant regarding any payments made, in order to detect any irregularities, especially concerning 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, in its Ethics Charter, ESI Group 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 also from acquiring or maintaining a dominant power other than by recognized legitimate means such as patents, skills, superior know-how or geographical location.

Measures to promote consumer health and safety

Due to the nature of its business, which is 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. For example, using Virtual Prototyping to design airbags or carrying out an in-depth study of advanced driver assistance systems (ADAS) increases the safety of vehicles for consumers. ESI Group solutions give consumers greater safety and comfort.

3.4. Being an environmentally friendly player

Considering the nature of its activity—distribution 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. However, the Group has still pledged to work towards limiting its environmental footprint by:

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

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

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. The main environmental challenges facing the Group are:

1. External, to help customers significantly reduce their environmental footprint by providing solutions allowing for the realistic simulation of the behavior of a product throughout the design, manufacturing and assembly cycle;

2. Internal, 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.

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.

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 immaterial. As all Group sites are leased, building improvement costs are borne entirely by the owners. Accordingly, ESI Group does not have full control over these aspects.

Moreover, no provisions or guarantees for environmental risks were recorded in the Group's 2016 consolidated fi-nancial statements.

Continuously raising employee awareness

For ESI Group, implementing 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 wasting energy, and thereby to reduce its environmental impact.

An Environment, Health and Safety Charter that applies in France must be extended to the entire Group.

3.4.2. Solutions to help reduce our environmental footprint

From the outset, by developing innovative Virtual Prototyping products, ESI Group 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 bringing more environmentally friendly production to the market.

Tighter regulations on greenhouse gas emissions and recycling requirements, higher fuel prices and consumers' growing environmental concerns are all boosting demand for more environmentally friendly products. Reducing one's environmental footprint now drives industry innovation. All the sectors where ESI Group operates are working to improve their environmental performance by manufacturing more environmentally friendly products, developing more ecological manufacturing processes, and reducing or eliminating physical prototypes.

ESI Group enables its clients to significantly reduce their environmental footprint with the use of its Virtual Prototyping solutions. By successfully combining advanced manufacturing processes with the most innovative materials, such as composites, ESI's solutions bring customers the following advantages:

- Reduced total product weight: using ESI's Virtual Seat Solution, the company Expliseat has developed the lightest seat ever certified by the European Aviation Safety Agency (EASA). This titanium seat is 50% lighter than the lightest models currently available on the market (8 kg to 10 kg). This significant weight reduction could result in an estimated 3% to 5% reduction in fuel usage, saving USD 300,000 to USD 500,000 per aircraft per year.
- Reduced waste associated with prototyping and manufacturing: with ESI Group solutions, Patriot Foundry & Castings, specializing in manufacturing parts in bronze-, aluminum- and zinc-based alloys, reduced its scrap rate by 98% in casting a gearbox part.
- Improved useful life and recyclability of products: by taking into account the effects caused in stamping and assembling various parts during Virtual Prototyping of a car suspension system, Honda was able to figure out why two subcontractors following the same specifications were supplying components with very different fatigue performances.
- Reduced gas emissions: the European target to reduce new car CO_2 emissions to 95 grams by 2021 is largely based on reducing the mass and use of new materials (aluminum, magnesium, composites, etc.), requiring the development of new, industrially viable fabrication and assembly processes.
- Reduced energy consumption: by properly managing and optimizing the office temperature control system developed using Scilab Cloud, Sanofi was able to reduce its energy consumption by 15%.

As such, digital prototypes can significantly reduce consumption of raw materials and energy and help achieve compliance with environmental standards for new products as shown in these examples.

3.4.3. Limiting the Group's environmental impact

3.4.3.1. Use of resources and measures to reduce consumption

<u>Energy use</u>

In 2016, electricity consumption on the Rungis site totaled 439,275 kWh, an average of roughly 2,988 kWh per employee. The significant 57% decrease is due to both the delocalization of most of the data center operations at the Ter@tec site and the measures taken based on the energy audit. On the Ter@tec campus where ESI has been involved since 2012, comparing electricity consumption between 2016 and 2015 is not relevant due to the installation of the PoD (Point of Delivery, a high-density mobile data center that can house up to 3,500 server nodes). Electricity consumption data is not available for the other French sites, as it is either included in rental charges or collective.

Average electricity consumption per employee came to 2,726 kWh for the sites in Germany, Japan, the Czech Republic, India and Tunisia. However, it should be noted that data on electricity consumption is not available for one of the three German sites.

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

ESI Group does not use renewable energy on the sites contained in the 2016 reporting scope.

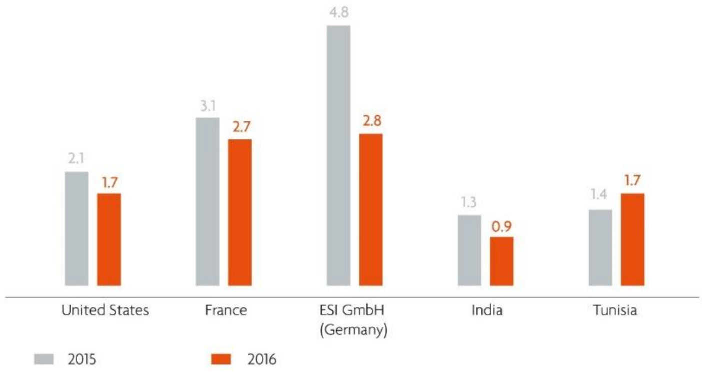
To minimize energy consumption, the Group has installed LED lights at its Rungis, Paris and Ter@tec offices in France and at its offices in India. In addition, during upgrades of certain workspaces in France, the Group has given preference to lighting with low power consumption, removed hot water tanks from restrooms, and refurbished air conditioning systems. Motion sensors have been installed for lighting systems in Tunisia, ESI Software in Germany and the Milpitas site in the United States.

Following the energy audit in 2015, the site in Rungis, France was fitted with a main switch to control the lighting system. 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.

<u>Paper consumption</u>

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

PAPER CONSUMPTION PER EMPLOYEE (IN NUMBER OF REAMS OF 500 SHEETS)



For all data studied (with the exception of Japan), average paper consumption in 2016 was low, and had decreased by over 24% from 2015, with about two reams of paper used per employee.

ESI Group also 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, SharePoint, a Cloud-based service for electronic document archiving and storage, was installed in 2016. Yooz, a Cloud-based software solution used to automate invoicing and purchasing processes, was also implemented in 2016.

In early 2017, employee representatives were elected in a fully electronic voting process, preventing the need to print ballots for the nine offices in France. Annual evaluations were also performed electronically in 2017 using the Loopline Systems tool.

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

Water consumption

The software publishing business is not very water-intensive as the activities do not require water for production. ESI Group’s water is therefore solely for sanitary use and is 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 and can therefore not be broken down in detail. However, as for the sites for which we have information (the Rungis site in France, ESI Mecas in the Czech Republic, ESI GmbH in Germany and the two sites in India), water consumption remained stable in 2016 compared to last year, with average consumption of 5.7 m^3 per employee.

Land use

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

Combating food waste

Non applicable. ESI Group does not manage company restaurants directly.

3.4.3.2. Waste management and pollution

Treatment and recycling of waste

Due to 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 any 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 is aware of this action in their daily lives. Since early 2017, the Rungis site has been testing a more elaborate waste sorting system that better meets environmental standards in partnership with Cèdre, a company that collects and manually sorts office paper into five categories to optimize recycling. All 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.

With regard to 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 Group 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 the United States, end-of-life or obsolete hardware is collected by an authorized provider that manages the processing of electronic waste. In Germany, the cleaning and facilities management department, in coor-dination with the IT departments, is tasked with collecting used electronic equipment. Waste management is then passed on to the local authority of each city. Furthermore, on request to our supplier in France, printer cartridges are collected and recycled via a completely ecological chain. Lastly, in the entire environmental scope, except Tunisia, ink cartridges, batteries, defective light bulbs and fluores-cent tubes are recovered by our various suppliers. Con-tainers are available to staff for this purpose in offices.

3.4.3.3. Greenhouse gas emissions (GHG) related to business travel

Measures to limit 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. To limit travel, in 2015, the Group redefined its travel policy in France, which will be extended to the entire Group in the future. Employees are encouraged to travel by train rather than by plane for trips of less than three hours. In France, a car policy also applies to people with a company car (as the French vehicle fleet is mainly comprised of vehicles under 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 is initially applicable to French employees. To limit the use of transport, the Group also 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 with audio and/or video conferencing sys-tems to facilitate remote meetings. Also, all workstations are equipped with the Skype for Business software allowing online audio and video meetings up to 250 persons. In 2016, an average of 86 audio meetings, lasting about one hour on average, were organized within the Group every day using Skype for Business.

Emissions associated with Group employees

In 2016, emissions resulting from business travel by French employees by train and by air totaled 361,634 kg of CO_2, representing 1,218 kg per employee, down 9% compared with 2015. In the United States, these emissions totaled 325,381 kg of CO_2 in 2016, representing 2,645 kg per employee. It should be noted that 40% of the Executive Committee is based in the United States.

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 indus-trial activities requiring heavy production work.

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 lia-ble to affect the vicinity are data centers, the two main ones being located in France. To protect employees authorized to enter computer rooms, the Group 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.

In Germany, 37,130 kg of CO_2 were produced in 2016 through business travel by German employees by train and by air (two out of three entities), representing 308 kg per employee. Across the entire scope, emissions resulting from business travel by air and by train remained stable despite the rise in staff numbers. It is worth noting that this data is provided by travel agencies that manage the Group’s travel reservations. Any reservations made by employees themselves are not included.

In 2016, 43 employees in France had a company car, along with 33 in the Czech Republic and 50 in Germany, but there were no company cars in the United States, India or Tunisia. In Japan, only one person had a company car. The granting rate of company cars was higher in Germany due in particular to the higher proportion of salespeople and to German culture which encourages this type of compensation. The estimate of annual CO_2 emissions from company car travel in France was 152,940 kg or 3,557 kg per company car, down nearly 10% from the previous year. Overall, business travel by French employees generated 514.6 metric tons of CO_2 in 2016, a 2% decrease despite a rise in the number of employees. As for company cars in the Czech Republic, the estimated emissions in 2016 were 102,233 kg of CO_2, an average of 3,098 kg per car, dropping nearly 17% compared with 2015. Lastly, for Germany, vehicle emissions fell 9% to 232,550 kg of CO_2, an average of 4,651 kg per car.

The drop in CO_2 emissions noted by the Group in 2016 is due to a combination of the measures implemented over the past few years and increased employee awareness about the issue.

3.5. Serving civil society

Partnerships are an integral part of the Group's business strategy to facilitate and promote Virtual Prototyping while acting sustainably:

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

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 clients' needs;
- Supporting 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, and 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. Innovation continually improves production processes and shortens the design period and the time it takes to develop new, more efficient and more reliable products.

To remain at the leading edge of innovation, the Group invested 30.2% of its Licensing revenues in R&D in 2016.

Innovation makes it possible to resolve the multiple constraints and pressures that weigh on all manufacturers—to develop a safer, more efficient and more environmentally friendly product faster and at a lower cost. The innovative Virtual Prototyping solutions offered by ESI Group allow us to approach these ever-present economic goals.

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.

3.5.1. Partnerships with the academic and scientific communities

Relations with the digital community

The Group makes a point of creating and maintaining excellent relationships with the various members of the digital community, including those 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 (formerly AFDEL, the French association of software publishers), which helps promote the software publishing industry and develop digital simulation, and which currently represents over 350 members. In so doing, ESI Group is strengthening its position in France as a leading player in digital transformation and is bringing in its vision for virtual engineering as well as its economic and social values.

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 major industrial players and research and development organizations in order to bring highly innovative products to market. Located all over France, these organizations are as follows: Aerospace Valley (Toulouse), ASTech Paris Région (Île-de-France), Nuclear Valley (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 Île-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 initiative is supported by the Union des industries et des métiers la métallurgie of Ile-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 lifecycle of 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 by the Investissements d'Avenir (Grand Emprunt) Program. 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 (Aeronautics Factory of the Future) 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 keep cost margins under control for manufacturing important parts in helicopter transmissions boxes.

Since 2013, a number of initiatives have emerged to design the Usine de Demain (Factory of the Future) and to use it to drive competitiveness and attractiveness 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. The SOFIA program (Solutions pour la Fabrication Industrielle Additive métallique) to support metal additive manufac-turing solutions in the aerospace industry is currently one of the ESI Group's major projects.

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 institutional 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 applications.

Relations with customer-partners

The Group's success also stems from an approach based on close collaboration with world leaders in each sector where the Group is active, including Renault-Nissan and Volkswagen in the automotive industry and EDF-AREVA in energy. By building strong relations with large indus-trial firms, the Group can perfectly match their Virtual Prototyping needs. These strategic partnerships help the Group's customers assess their innovation requirements and implement them jointly with ESI Group.

3.5.2. Act ethically and responsibly

Ethics Charter

In 2016, the Group issued its Ethics Charter to promote observance of its values and 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. It is based on the observance of the ethical rules promoted by the conventions of the International Labor Organization. The Ethics Charter was dissem-inated to all employees and is available in six languages on the Group's internal and external websites.

Ethics Committee

A five-member Ethics Committee was formed to make sure the Ethics Charter is applied properly. The Ethics Committee is responsible for creating an environment where employees can adhere to the Ethics

Charter and ensure that its principles are upheld by everyone, every day. The Committee listens to and assists employees so that they can discuss any issue involving the implemen-tation of and compliance with the Ethics Charter. It also works to make sure that all Group subsidiaries apply the principles set out in the Charter.

This Committee meets every quarter to discuss ethics is-sues and come up with corrective measures, if necessary.

3.6. Report of the inspecting organization

Year ended January 31, 2017

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, 2017 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 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.

Independent third-party organization's responsibility

On the basis of our work, our responsibility is to:

- Attest whether the required information is presented in the Management Report or, if not presented, whether an appropriate explanation is given 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 CSR Information presentation);
- Express 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:

- Compared the Information presented in the Management Report with the list provided in Article R. 225-105-1 of the French Commercial Code;
- 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;
- Verified that, in the absence of certain consolidated information, 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, 2017 and May 10, 2017, for a period of about six person-days at the ESI Group headquarters.

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.);
- Carried out analytical procedures on the quantitative information and, based on sampling, verified the calculations and the consolidation of the data;
- Ran detailed tests based on sampling[(1)] [i]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 60% of the consolidated value of the numerical indicators in the employment portion and 60% 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, 2017 on a narrow but significantly expanding scope.

Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that CSR Information, taken together, has not been fairly presented, in accordance with reporting criteria.

Lyon, May 11, 2017

FINEXFI

Isabelle Lhoste, Partner

[i] Companies selected for the tests: Rungis, Germany and Czech Republic sites for the environmental component and France sites for the social component.

Fiscal year 2016 (ended January 31, 2017)

In accordance with Article L.451-1-2 of the French Monetary and Financial Code, this chapter includes the Board's Management Report to the Combined General Meeting of June 29, 2017. This report accounts for the Company's activities during the 2016 fiscal year (ended January 31, 2017), including the result of these activities and the Company's outlook, and presents the Company's accounts and balance sheets for the fiscal year.

Information on various risk factors is included in Chapter 1, under Section 1.6, "Risk factors."

Information on corporate governance and the managing boards and their members is included in Chapter 2 of this Document.

The report on corporate, social and environmental responsibility is reproduced in full in Chapter 3 of this Document.

Information on the company's share capital and the participation of shareholders in the General Meeting is included in Chapter 7 of this Document.

4.1. Business activities during FY2016

4.1.1. Highlights of FY2016

Financial data

The success of ESI Group's commercial offering was confirmed in 2016, as testified by its strong revenue growth in 2016. The growth of its Licensing activity, particularly sustained in Asia, and the marked dynamism of its high value-added services reflect an increasing need for support in industrial customers' transition to the Industry of the Future, confirming ESI's PPL (Product Performance Lifecycle) approach. Over the fiscal year, revenues generated from recent acquisitions, mainly linked to ESI ITI GmbH, reflect the implementations of initial commercial synergies. There was a positive currency effect of €2.1 million, arising mainly from the positive trend of the Japanese yen, though the effect was limited by the fall of the British pound.

Total gross margin improved due to an improved Services margin and a maintained high margin in Licenses. Furthermore, R&D investments continued at a high rate of €32.7 million. Sales and Marketing and General and Administrative costs grew at a slower rate than revenue growth.

These elements all led to a substantial improvement in profitability, as evidenced by an increase in all profitability indicators despite continued investment in R&D and external growth.

Finally, year-end available cash was up compared to the previous fiscal year.

Structural changes

On February 5, 2016, ESI Group acquired 100% of the capital of the American company Mineset Inc. This acquisition was financed by a drawdown on the syndicated loan signed in November 2015.

The Group also bought out several minority interests, including those in ESI Software Germany, increasing its shareholding to 98.5% as at January 31, 2017, in ESI Services Tunisia, increasing its shareholding to 95%, and in CyDesign Labs Inc., thereby increasing its shareholding to 99.9%.

Rollout of solutions

<u>Renewal of major contracts in the Automotive sector</u>

The signatures in 2016 of the three-year agreement with Volkswagen Group with an expanded perimeter for the ninth consecutive time (in a highly sensitive context), and of a second joint contract with Renault-Nissan, reflect an indisputable need for ESI's virtual engineering solutions. These solutions offer customers 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. Collaboration with Honda, another key partner, was also solidified, reaffirming the strategic ties between ESI and Automotive, a sector at the forefront of the transition to Digital Factory.

<u>Business sector diversification</u>

ESI Group has notably strengthened its position in the Aerospace sector, which has become the Group's second most important sector after Ground Transportation. As a sign of the sector's steady shift to Digital Factory, innovative Services orders saw strong growth throughout the fiscal year.

Successful integration of the ESI ITI GmbH solution

The integration of recent acquisitions continued successfully in 2016, confirming ESI Group's expertise in that domain.

The strong sales growth posted by ESI ITI GmbH, the leader in 0D-1D mechatronic and multi-domain systems simulation with its SimulationX solution, reflects the achievement of commercial synergies. More broadly, the relevance of the Group's strategic vision of bringing together the different universes of modelling with areas of physics, from the most simplified (0D-1D dimensional systems) to the most sophisticated (3D-4D components), is reaffirmed.

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)	2016	2015	Variation at actual currency rate	Variation at constant currency rate
Total sales	**140.6**	**124.7**	**+ 12.7%**	**+ 11.0%**
Licenses	108.3	97.0	+ 11.6%	+ 9.9%
Services	32.2	27.7	+ 16.5%	+ 15.0%
Gross margin	**103.1**	**90.4**	**+ 14.0%**	**+ 11.9%**
% of sales	73.3%	72.5%		
EBITDA (1)	**18.3**	**14.3**	**+ 28.1%**	**+ 14.6%**
% of sales	13.0%	11.4%		
Current operating profit	**15.4**	**11.8**	**+ 30.1%**	**+ 13.8%**
% of sales	10.9%	9.5%		
EBIT	**13.7**	**9.4**	**+ 46.7%**	**+ 25.9%**
% of sales	9.8%	7.5%		
Net profit (Group share)	**7.5**	**5.3**	**+ 41.1%**	**+ 18.3%**
% of sales	5.4%	4.3%		

(1) EBITDA excluding non-recurring result, and including the impacts of capitalization of development expenses and net allowance on account receivables' depreciation.

4.1.2.1.2. General information

Sales growth

2016 revenue totaled €140.6 million, up €15.9 million (12.7%). Acquisition-related revenue contributed €6.4 million, reflecting the implementation of initial commercial synergies. There was a positive currency effect of €2.1 million, arising mainly from positive movements of the Japanese yen.

The product mix remained stable, with Services performing well, and now accounting for 23% of total sales compared to 22% in the previous year.

Licensing sales totaled €108.3 million, up 11.6% compared with the previous year. That solid growth was driven by the growth in the installed base (+13.0%), that holds a high repeat business rate of 89.1% measured for the organic perimeter and at constant exchange rates, while new business remained stable.

Services sales totaled €32.2 million, a strong growth of 16.5%, driven by a solid +16.8% increase in engineering studies, the core of ESI Group's activity, and by the remarkable growth (+57.1%) of special projects that support the group's methodological transformation, including co-creation projects linked to recently-acquired emerging disruptive technologies.

The geographical split in sales reflected strong activity in Asia and in the BRIC countries, particularly China and India.

Improved gross margin

The gross margin increased to 73.3% of sales, compared with 72.5% in 2015. This solid performance is driven by an improved margin in Services and a maintained high margin in Licenses. This improvement was driven by the dynamic growth of the high-value-added engineering studies delivered by ESI Group to industrial firms wishing to make the transition to Digital Factory.

Continued investments

R&D investments, the lifeblood of technological innovation, were maintained at a high level of €32.7 million, up 12.3%. This ongoing effort reflects ESI's constant focus on the newly acquired technologies that underpin its disruptive PPL approach. These investments represent 30.2% of Licensing sales. Once the French Research Tax Credit (CIR) and development costs capitalization are taken into account, the total R&D costs recorded in the P&L statement amounted to €26.9 million at actual rates, an increase of 18.3%.

Strong growth of profitability indicators

EBITDA rose by 28.1%, from €14.3 million to €18.3 million, giving a margin rate of 13.0% compared with 11.4% in 2015. This improvement benefited from slight increases in Sales & Marketing (S&M) and General & Administrative (G&A) costs (+8.4% and +9.7%, respectively), which now represent 29.8% and 13.5% of total sales.
Current Operating Profit (COP) grew by 30.1% to €15.4 million, showing a current operating margin of 10.9%, or 1.4 percentage points higher than the previous year. EBIT increased by 46.7% to €13.7 million, giving a 9.8% margin, up 2.3 percentage points over the previous year. This strong growth, stronger than the increase in EBITDA and COR, was primarily due to the lower non-recurring costs due to expenditure related to the Group's most recent technological acquisitions recorded in non-recurring items in 2015.
The Financial Result was €-2.1 million compared to €-0.9 million in 2015, affected by a rise in interest charges and exchange losses, following appreciation of the Japanese yen against the euro in the second semester. Attributable Net Profit totaled €7.5 million, to yield a net margin of 5.4%.

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 €8.5 million. This growth is explained by the acquisitions of technological bricks and companies for an amount of €4.4 million and by the development costs capitalization which had impacted the fixed assets by €2.8 million;
- Financial debt increased by €5.3 million, due to two opposing effects: rising debt due to recent acquisitions and the factoring of the 2015 CIR debt, which was partially offset by the reimbursement of €4.3 million of the syndicated loan. The use of the revolving credit line remained stable, at €8.0 million.

Equity stood at €99.5 million, up due to appropriations from net profit for the year.
Net financial debt totaled €37.4 million. Gearing (net financial debt to equity) represents 37.6% of equity, versus 39.3% at January 31, 2016.
Net cash available increased by €3.7 million, from €10.3 million to €14.1 million at January 31, 2017. At January 31, 2017, ESI Group also held 7.0% of its equity in treasury stock.

4.1.2.3. Risk management

Country risks and foreign exchange risk

Because of its international dimension, particularly in countries with a currency other than the euro, the Group is exposed to country risk and foreign exchange risk.
A description of these risks and their hedging is detailed in notes 7.1.4 and 7.3 to the consolidated financial statements.

Foreign exchange risk

Most of the Group's financial debts have variable interest rates. In order to limit the negative impacts of rate fluctuation, the Group applies a non-speculative management policy, which uses 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

Net cash available at January, 31, 2017 amounted to €14.1 million, made up of a positive cash position of €14.5 million less a €0.4 million bank overdraft. The € +3.7 million increase over FY2016 can be explained by the events listed below.
Net cash flows came to €10.5 million compared to €7.5 million for the previous fiscal year. This change is primarily due to:

- An increase in EBITDA of €4.0 million;
- A reduction of €0.6 million in development cost capitalization;
- A reduction of €1.1 million in non-recurring, acquisition-related costs;
- An impact of the financial result on cash flows of €-2.2 million, including €-0.5 million due to higher

interest on loans, and a €-1.7 million currency result of foreign currency transactions (the impact on cash flows of hedging instruments remained stable compared to the previous year);

- An increase of €0.4 million in income taxes paid.

Variation in working capital requirement (WCR) had a limited negative impact of €1.5 million. The amount of cash flows from operations is thus €9.0 million, a marked improvement compared to 2015. Current capital expenditures paid by the Company are worth €2.3 million, compared to €2.9 million for the previous fiscal year. In FY 2015, ESI made significant investments in the area of high performance computing (HPC).

In addition to these current capital expenses, there were acquisitions of technological bricks and subsidiaries and payment earnouts for €4.7 million. The main financing flows were related to recent acquisitions for €5.8 million and to the reimbursement on maturity of the syndicated loan for €-4.3 million. Financial debts also increased due to factoring of the CIR debt for €2.4 million. The use of revolving credit remained stable at €8 million. Overall, financial debts excluding over-drafts increased by €5.1 million.

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. These costs amounted to €32.7 million in 2016, an increase of 12.3% compared to the previous year. This investment rise mainly concerns development on last external growth operations.

The capitalization of R&D costs had a €+2.8 million impact on the income statement in 2016.

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, focusing on:

- Generic analysis and simulation tools needed to approach the market (Virtual Tool);
- Business solutions that provide realistic physical modeling properties via simulation tests;
- Component lines to manage processes and best practices by industrial segment or multi-model design (Virtual Component);
- Systems involving component chains or mechatronic systems and sub-systems (Virtual System);
- 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 the 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 processes or to improve their performance by working jointly with ESI Group.

The Edition Operation allots different levels of investment depending on the maturity of the product:

- Investments are made in mature products 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 research contracts with leading customers in order to ensure the viability of these new tools, and where applicable, to increase the chance of commercial success.

The Products Direction also maintains a technology watch in support of all products.

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

- Ensuring generic products and components to meet multiple needs in multiple industrial segments and to support developments of services, customers, or

third parties;
- Ensuring the competitiveness and productivity of our products by targeting specific, high-potential business applications and solutions;
- Maximizing synergies between products to make it easier to release competitive, affordable versions and minimize maintenance efforts;
- Integrating this generic expertise into a comprehensive virtual prototyping platform that makes it easy to take needs into account for specific applications or custom services.

The Edition Operation 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, and 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 Operation follows a methodology 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 is used to strike a balance between human interests and financial interests, is being expanded to reduce dependence on exchange rate effects and also 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 international copyright, by specific laws concerning database producers within the European Union, and by competition law outside the EU.
The ownership of all development work ordered and performed by ESI Group's subsidiaries is transferred to the Company. ESI Group products are either owned directly by the Company or published by the Company under a publishing contract and owned by its subsidiaries.
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 the Company's offering (for which replacement solutions could be obtained in the event that the third-party software is discontinued) or complementary solutions. These latter solutions are not, however, critical to the operation of the Company's software.
Furthermore, some of the Company's subsidiaries own patents.

4.1.4. ESI Group annual financial statements and allocation of profits

4.1.4.1. ESI Group annual financial statements

ESI Group 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's revenue consist mainly of:
1. Royalties paid by subsidiaries, distributors, and agents and received for software licensing;
2. Amounts billed to direct customers for software licens-ing and/or services, in territories not covered by its subsidiaries;
3. Management fees billed to subsidiaries as compensation for ESI Group oversight responsibilities;
4. Self-created assets stemming from development work.

The operating result for 2016 is a profit of €3.2 million compared to a profit of €1.6 million for the previous year.

This increase of €1.5 million is explained in the table below:

(in € thousands)	2016	2015	Change
Operating profit	**3,192**	**1,649**	**1,543**
Increase in revenue			5,156
Increase in inventory			622
Increase in net impact of capitalization of R&D costs (capitalization and amortization)			257
Increase in external expenses			(2,890)
Increase in salaries and social charges			(1,373)
Change in provisions for contingencies and risks (operating result)			(265)
Other change			37
TOTAL CHANGE			**1,543**

The financial result is a loss of €2.5 million compared to a profit of €0.5 million in 2015. The financial result can be broken down as follows:

(in € thousands)	January 31, 2017	January 31, 2016
Realized foreign exchange currency result	(230)	1,471
Unrealized foreign exchange currency result	(484)	313
Interest on loans	(868)	(431)
Provision for depreciation of investments	(827)	(910)
Other financial income (expenses)	(83)	80
TOTAL	**(2,492)**	**522**

Current income before tax is a profit of €0.7 million, compared to €2.1 million in 2015.

The Company has also recorded €0.7 million of exceptional loss, essentially composed of accelerated capital allowances.

The Company recognizes a credit tax income of €1.7 million, compared to €2.2 million in 2015, which corresponds to a corporate tax expense of €1.3 million, to a CIR credit of €2.8 million and to a CICE credit of €0.1 million.

Net profit stands finally at €1.6 million, compared to €4.0 million in 2015. Equity fell by €0.9 million, from €92.0 to €91.2 million due to:

- Net income (+ €1.6 million);
- Decreases in retained earnings (€3.2 million) following a change in accounting methods for retirement and post-employment benefits (ESI now applies the preferred method for recording these commitments in the balance sheet);
- Capital increases after the exercise of stock options (€+0.4 million);
- Changes in regulated provisions (€+0.3 million). The main changes in the balance sheet over the fiscal year are described below:
- Net capital assets increased by €7.0 million, from €114.9 million to €121.9 million, due mainly to an increase in capitalized development costs for €3.5 million and an increase in investments for €3.9 million.
- Financial debt remained relatively stable, from €43.3 million to €44.4 million, up €1.1 million. The annual syndicated debt repayment of €4.3 million partially offsets the increase of €5.4 million, which particularly resulted from new acquisitions for €4.5 million.

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, 2017, the balance of ESI Group's liabilities to its vendors breaks down as follows:

Term	2016 *(in € thousands)*	2015 *(in € thousands)*
<30 days	9,182	5,314
30 to 60 days	2,582	3,075
60 to 90 days	1,693	342
90 to 120 days	1,072	805
> 120 days	13,466	9,299
SUB-TOTAL	27,994	18,835
Invoices not received	10,594	11,645
TOTAL	**38,588**	**30,480**

Terms greater than 120 days are debts to Group subsidiaries.
Two branches are integrated within ESI Group's financial statements; details are shown in Note F.3. to the annual financial statements.

4.1.4.2. Allocation of profits

Situation at January 31, 2017:

- Net profit for the year: €1,632,373.85;
- Profit carried forward: €30,927,210.21;
- Total to be allocated: €1,632,373.85.

Allocation:

- €11,075.99 to the legal reserve;
- €1,621,297.86 to profit carried forward.

Following this allocation, the balance of the legal reserve stands at €1,797,597.60, representing 10% of share capital. Profit carried forward stands at €32,548,508.07.

4.2. Outlook

4.2.1. Subsequent events

In February 2017, ESI announced the acquisition of Scilab Enterprises SAS, editor of Scilab, recognized as the best open source alternative to the commercial software MATLAB®. Scilab offers extended solutions for numerical computation and a powerful development environment for engineering and scientific applications. The acquisition of Scilab Enterprises will help ESI Group broaden its positions at the early design and analysis stages of industrial products. Following the acquisition of ITI and its system modeling software SimulationX (0D-1D models), this extended position aligns with the Group's disruptive transformation strategy aimed at providing all players in the industrial product development process with the power of computer modeling at the earliest stages. Engineers working in a traditional PLM (Product Lifecycle Management) approach already use analytical mathematical models created under Scilab to explore design options rapidly with simplified 0D models before moving on to detailed design work with more refined (0D-1D to 3D-4D) models, certification, and production.

In February 2017, the Company also bought back outstanding minority interest in its subsidiary ESI Italia, which it now wholly owns.

4.2.2. Business trends

2016 was characterized by the success of legacy solutions as well as by new acquisitions focused on the development of innovative solutions within the PPL strategy. 2017 promises to be a year of integration and transformation for the Group, both in continuing investment and expanding its Virtual Prototyping and hybrid solutions, and also in adapting its commercial and marketing resources to a new commercial dynamic. The Group remains confident in its ability to amplify its own ongoing transformation into the Industry of the Future. This should contribute to positioning the Group ideally to capture the growth arising from the diversification and democratization of Virtual Prototyping and its expansion towards the in-service performance, while continuing to improve its profitability.

4.3. Information on the agreements signed or pursued during fiscal year 2016

4.3.1. Agreements signed by a director or significant shareholder of the Company with a subsidiary under Article L. 225-102-1

To the Company's knowledge, currently there are no agreements between any director or significant shareholder of the Company and any subsidiary.

4.3.2. Regulated agreements falling under Article L. 225-38 of the French Commercial Code

Buyback of shares from a Shareholder holding more than 10% of voting rights
On December 20, 2016, the Company purchased 8,000 shares from the successors of Mr. Jacques Dubois (former Director, deceased in 2015), who at that date held more than 10% of voting rights, under its share buyback program. The transaction was approved by the Board of Directors in its meeting of November 30, 2016.
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 €39.29 per share or €314,320 for the 8,000 shares.
The reason for this purchase was the Company's intention to maintain the shares and either to subsequently use them as part of its share purchase option program or to allocate free shares to employees and/or directors, in accordance with Article L. 225-209 of the French Commercial Code.

Consultancy contract with a Board member
It is recalled that 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.
This contract was renewed under the same conditions in FY2016 and reviewed by the Board on April 8, 2016. Following a review by the Compensation, Nomination and Governance Committee on March 28, 2017, the Board decided to renew the contract but to review its conditions to bring them closer to market conditions.
The purpose of this contract is to grant to Mrs. de Rouvray specific missions relating to human resources, consulting, and strategic management.
It is recalled that the special statutory auditors' report on regulated agreements falling under Article L. 225-38 of the French Commercial Code, as reproduced in section 4.3.3. below, is submitted for consideration and approval by the Shareholders' meeting of June 29, 2017.

4.3.3. Statutory Auditors' report on regulated agreements

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

Special Statutory Auditors' report on regulated agreements and commitments

(Annual meeting of the shareholders on results for the year ended January 31, 2017)

To the Shareholders,

As your Company's Statutory Auditors, we hereby present our report on regulated agreements and commitments.

It is our responsibility to communicate to you, based on information provided to us, the characteristics, the principal terms and conditions, and the grounds of the interest to the Company of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying any other such agreements and commitments. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code, to assess the interest involved in the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R. 225-31 of the French Commercial Code relating to the implementation during the past fiscal year of any agreements and commitments previously approved by the Shareholders' General Meeting.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement. These procedures consisted in verifying the concordance of the information provided to us with the relevant source documents.

AGREEMENTS AND COMMITMENTS SUBMITTED FOR THE APPROVAL OF THE SHAREHOLDERS' MEETING

Agreements and commitments authorized during the fiscal year

Pursuant to Article L. 225-40 of the French Commercial Code, we have been advised of the following regulated agreements and commitments which had received prior authorization from your Board of Directors.

Buyback of shares from a Shareholder holding more than 10% of voting rights

- With: The successors of Mr. Jacques Dubois, former Director deceased in 2015.
- Nature and purpose: Buyback by the company of its own shares.
- Terms and conditions: On December 20, 2016, your company purchased 8,000 shares from the successors of Mr. Jacques Dubois, a former Director deceased in 2015, under its share buyback program.

These shares were bought back at the average market price over the 20 trading days preceding the transaction after a deduction of 5%, or the price corresponding to €39.29 per share or €314,320 for the 8,000 shares.

- Grounds of the interest for the company: The reason for this purchase was the Company's intention to maintain the shares and subsequently use them as part of its share purchase option program, or to allocate free shares to employees and/or directors, in accordance with Article L. 225-209 of the French Commercial Code.

Consultancy contract with a board member

- With: Ms. Cristel de Rouvray.
- Nature and purpose: Consultancy contract.
- Terms and conditions: On April 15, 2015, the Company signed a consultancy contract with Ms. 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 of April 14, 2015.

The initial duration of the contract was from April 15, 2015 to January 1, 2016, automatically renewable for a period of one year.

This contract was renewed under the same conditions in FY2016 and reviewed by the Board on April 8, 2016.

The annual cost of this contract is estimated at USD77,875

- Grounds of the interest for the company: The purpose of this consultancy contract is to grant to Mrs. Cristel de Rouvray specific missions relating to human resources, consulting, and strategic management.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED BY THE SHAREHOLDERS' MEETING

We have not been informed of any agreements previously approved by the Shareholders' meeting, the performance of which continued during the previous fiscal year.

Neuilly-sur-Seine and Paris-La Défense, May 18, 2017
The Statutory Auditors

PricewaterhouseCoopers Audit	ERNST & YOUNG Audit
Thierry Charron	Frédéric Martineau

4.4. Factors that may have an impact in the event of a public offering

In accordance with article L. 225-100-3 of the French Commercial Code, the following is clarified:

- The structure of the share capital as well as direct or indirect investments of which the Company is aware and all such information is included in Section 7.2.4. of Chapter 7 under the heading "Change in the breakdown of the Company's share capital";
- To the Company's knowledge, there are no agreements or other commitments signed by the shareholders other than those mentioned in Section 7.2.4. of Chapter 7 under the heading "Shareholders' agreements";
- There are no securities giving special control rights other than double voting rights stipulated in Article 9 of the Articles of Association and mentioned in Section 7.1.2. of Chapter 7 under the heading "Double voting rights (article 9 of the articles of association)";
- There are no restrictions in the bylaws on the exercise of voting rights and the transfer of shares;
- Voting rights attached to ESI shares with regard to the employee savings plan are exercised by the ESI FCPE;
- The rules for appointing and removing members of the Board of Directors are those of common law;
- Concerning the powers of the Board of Directors, current authorizations are described in the table summarizing powers delegated with regard to share redemption and capital increases in Section 7.2.2. of Chapter 7;
- Any amendments to ESI Group's articles of association are made in accordance with legal requirements and regulations;
- There are no agreements providing for compensation in the event of the departure of directors.

4.5. Table summarizing the results of the past 5 fiscal years

Balance sheet date	01/31/2017	01/31/2016 Restated	01/31/2015	01/31/2014	01/31/2013
Duration of fiscal year (months)	12	12	12	12	12
CAPITAL AT BALANCE SHEET DATE					
Share capital	17,975,976	17,865,216	17,845,266	17,806,896	17,613,387
Number of shares					
– ordinary shares	5,991,992	5,955,072	5,948,422	5,935,632	5,871,129
– preference shares					
Maximum number of shares to be created					
– via convertible bonds					
– via subscription rights	207,080	207,080	159,095	178,910	225,850
OPERATIONS AND RESULTS					
Revenue (excl. tax)	84,313,214	79,156,886	68,487,405	65,743,553	62,077,701
Earnings before tax, employee profit-sharing, allowances for amortization and provisions	28,651,433	30,414,474	25,228,586	25,909,345	20,463,075
Income tax	(1,669,380)	(2,205,946)	(1,865,499)	(1,427,906)	(1,079,267)
Employee profit-sharing	15,967				
Allowances for amortization and provisions	28,688,439	19,916,428	26,012,821	20,703,306	17,980,688
Net income	1,632,374	3,931,981	1,081,264	6,633,945	3,561,654
Distributed earnings					
EARNINGS PER SHARE					
Earnings after tax and employee profit-sharing, before allowances for amortization and provisions	5.06	4.00	4.55	4.61	3.67
Earnings after tax, employee profit-sharing, allowances for amortization and provisions	0.27	0.66	0.18	1.12	0.61
Dividend					
PERSONNEL					
Average headcount	234	217	212	202	185
Payroll	14,159,959	13,203,318	12,446,007	12,200,768	11,645,485
Amounts paid in benefits (social security, social welfare, etc.)	6,711,622	6,295,088	5,772,990	5,652,434	5,314,973

5.1. Consolidated financial statements

5.1.1. Consolidated income statement

(in € thousands)	Note	January 31, 2017	January 31, 2016
Licenses and maintenance		108,316	97,038
Consulting		31,177	26,524
Other		1,058	1,155
REVENUE	4.1	140,551	124,718
Cost of sales		(37,491)	(34,305)
Research and development costs	6.1.2	(26,942)	(22,772)
Selling and marketing expenses		(41,842)	(38,611)
General and administrative expenses		(18,912)	(17,223)
CURRENT OPERATING RESULT		15,365	11,807
Other operating income and expenses	3.2.2	(1,644)	(2,454)
Total operating expenses	4.4	*(126,830)*	*(115,365)*
INCOME FROM OPERATIONS		13,721	9,353
FINANCIAL RESULT	7.2	(2,115)	(950)
Share of profit of associates		89	123
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS		11,695	8,527
Provision for income tax	8.1	(3,992)	(3,157)
NET INCOME BEFORE MINORITY INTERESTS		7,703	5,370
Minority interests		180	40
NET INCOME (GROUP SHARE)		**7,523**	**5,330**
Earnings per share *(in euros)*	9.3	1.36	0.96
Diluted earnings per share *(in euros)*	9.3	1.35	0.96

Statement of comprehensive income

(in € thousands)	January 31, 2017	January 31, 2016
NET INCOME BEFORE MINORITY INTERESTS	7,703	5,370
Other comprehensive income recycled to income		
Change in the fair value of hedging instruments	(8)	23
Translation differences	27	61
Other comprehensive income (loss) not recycled to income		
Actuarial gains and losses	(481)	43
INCOME AND EXPENSES RECORDED DIRECTLY IN EQUITY	(462)	127
COMPREHENSIVE INCOME	**7,241**	**5,497**
Attributable to Group equity holders	7,064	5,454
Attributable to minority interests	178	44

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

5.1.2. Consolidated balance sheet

Assets

(in € thousands)	Note	January 31, 2017	January 31, 2016
NON-CURRENT ASSETS		122,794	112,966
Goodwill	3.2	40,810	38,508
Intangible assets	6.1	57,830	54,623
Property, plant and equipment	6.2	4,440	4,266
Investment in associates		890	859
Deferred tax assets	8.2	10,901	10,548
Other non-current assets	10.1.1	7,900	4,072
Cash-flow hedging instruments	7.1.4	22	90
CURRENT ASSETS		104,921	94,049
Trade receivables	4.2	74,064	67,676
Other current receivables	10.1.2	12,273	12,692
Prepaid expenses	10.1.3	4,115	3,355
Cash and cash equivalents	7.1.3	14,470	10,327
TOTAL ASSETS		**227,715**	**207,015**

Liabilities

(in € thousands)	Note	January 31, 2017	January 31, 2016
EQUITY		99,488	91,727
Equity (Group share)	**9.1**	**98,475**	**90,842**
Capital		17,976	17,865
Additional paid-in capital		25,218	24,938
Reserves and retained earnings		45,915	40,882
Net income (loss)		7,523	5,330
Translation differences		1,843	1,827
Minority interests		**1,013**	**884**
NON-CURRENT LIABILITIES		48,766	44,040
Long-term share of financial debt	7.1.2	36,031	32,597
Provision for employee benefits	5.3	8,472	6,820
Deferred tax liabilities	8.2	2,963	3,281
Cash-flow hedging instruments	7.1.4	53	21
Other long-term debt		1,247	1,321
CURRENT LIABILITIES		79,461	71,248
Short-term share of financial debt	7.1.2	15,805	13,967
Trade payables		10,895	8,073
Accrued compensation; taxes and others short-term liabilities	10.2.1	29,329	26,593
Provisions for contingencies, risks and disputes	10.2.2	1,042	1,551
Deferred income	4.3	22,389	21,064
TOTAL LIABILITIES		**227,715**	**207,015**

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

5.1.3. Consolidated statement of changes in equity

(In € thousands except number of shares)	Number of shares	Capital	Additional paid-in capital	Net income, reserves and retained earnings	Translation differences	**Equity attributable to parent company owners**	Minority interests	**Total Equity**
AT JANUARY 31, 2015	5,948,422	17,845	24,899	41,879	1,773	**86,396**	457	**86,853**
Change in fair value of hedging instruments				23		**23**		**23**
Translation differences					54	**54**	7	**61**
Actuarial gains and losses				46		**46**	(3)	**43**
Income and expenses recognized 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**
Proceeds from issue of shares	6,650	20	39			**59**		**59**
Treasury shares				(229)		**(229)**		**(229)**
Share-based payments				286		**286**		**286**
Transactions with non-controlling interests				(1,123)		**(1,123)**	384	**(740)**
AT JANUARY 31, 2016	5,955,072	17,865	24,938	46,212	1,827	**90,842**	884	**91,727**
Change in fair value of hedging instruments				(8)		**(8)**		**(8)**
Translation differences					25	**25**	2	**27**
Actuarial gains and losses				(476)		**(476)**	(4)	**(481)**
Income and expenses recognized directly in equity				**(485)**	**25**	**(459)**	**(2)**	**(462)**
Net income				7,523		**7,523**	180	**7,703**
COMPREHENSIVE INCOME				7,039	25	**7,064**	178	**7,241**
Proceeds from issue of shares	36,920	111	280			**391**		**391**
Treasury shares				(315)		**(315)**		**(315)**
Share-based payments				333		**333**		**333**
Transactions with non-controlling interests				169	(9)	**160**	(49)	**111**
AT JANUARY 31, 2017	**5,991,992**	**17,976**	**25,218**	**53,438**	**1,843**	**98,475**	**1,013**	**99,488**

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

5.1.4. Consolidated statement of cash flows

(in € thousands)	January 31, 2017	January 31, 2016
Net income before minority interests	7,703	5,370
Share of profit of associates	(89)	(123)
Amortization and provisions	4,574	3,860
Net impact of capitalization of research & development costs	(2,832)	(3,456)
Income taxes (current and deferred)	3,992	3,157
Income taxes paid	(3,243)	(2,817)
Unrealized financial gains and losses	(60)	1,190
Share-based payment transactions	333	286
Gains and losses on asset disposals	130	14
CASH FLOWS	10,509	7,481
Trade receivables	(6,649)	(7,573)
Trade payables	2,949	211
Other receivables and other liabilities	2,198	(445)
Change in working capital requirement	**(1,502)**	**(7,807)**
NET CASH FROM OPERATING ACTIVITIES	9,007	(326)
Purchase of intangible assets	(528)	(2,590)
Purchase of property, plant and equipment	(2,201)	(2,637)
Proceeds from the sale of assets	-	24
Acquisition of subsidiaries, net of cash acquired	(4,361)	(17,552)
Other investment operations	(3,566)	(2,112)
NET CASH USED FOR INVESTING ACTIVITIES	(10,656)	(24,866)
Proceeds from loans	19,891	47,916
Repayment of borrowings	(14,775)	(24,222)
Proceeds from issue of shares	391	59
Purchase and proceeds from disposal of treasury shares	(315)	(229)
CASH FLOWS FROM FINANCING ACTIVITIES	5,193	23,523
Effect of exchange rate changes on cash and cash equivalents	186	55
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,729**	**(1,613)**
Opening cash position	10,327	11,940
Closing cash position (1)	14,056	10,327
NET CHANGE IN CASH AND CASH EQUIVALENTS	**3,729**	**(1,613)**

(1) Net cash and cash equivalents at January 31, 2017 comprised €14.47 million in assets less €0.414 million in bank overdrafts.

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

5.1.5. Notes to the consolidated financial statements

Table of contents of notes to the consolidated financial statements

Note 1. Accounting principles

Note 1.1. General information

ESI Group is a listed French limited company (*société anonyme*), registered in France and governed by French law.

ESI Group has its head office at 100-102 Avenue de Suffren, Paris (75015), France.

ESI Group is the parent company of some 30 subsidiaries operating throughout the world, together comprising the Group ESI.

ESI Group is the world's foremost creator of Virtual Prototyping software and services. Specializing in the physics of materials, ESI Group has developed unique expertise to help industrial players replace physical prototypes with virtual ones, thus making it possible to virtually manufacture and test the products of the future, ensuring pre-certification. Used together with latest-generation technologies, today Virtual Prototyping is part of an overarching approach to the Product Performance Lifecycle (PPL), which addresses products' operating performance throughout its useful life cycle, from rollout to withdrawal. The creation of Hybrid Twins incorporating simulation, physics and data analysis makes it possible to create smart products, particularly using connected objects, as well as to predict their performance and anticipate their maintenance requirements.

The Group's fiscal year runs from February 1 to January 31. As such, FY2016 ended on January 31, 2017.

Financial statements are presented in thousands of euros.

The 2016 financial statements were approved by the Board of Directors on April 18, 2017 and will be submitted to the General Meeting of June 29, 2017 for approval.

Note 1.2. Accounting standards applied

The consolidated financial statements at January 31, 2017 were prepared in accordance with the IFRS standards, as approved by the European Union at January 31, 2017. These standards are available on the European Union website.

Note 1.3. New IFRS standards and interpretations

<u>New standards, amendments and interpretations effective in the European Union and mandatory for fiscal years beginning on or after February 1, 2016</u>

The adoption of the following texts had no significant impact on the information presented by the Group:

- Amendments to IFRS 11 – Joint Arrangements;
- Amendments to IAS 16 and IAS 38 – Fixed assets: Clarification of acceptable methods of depreciation and amortization;
- Annual improvements – 2012-2014 cycle;
- Amendments to IAS 1 – Presentation of Financial Statements;
- Amendments to IAS 27 – Equity Method in Separate Financial Statements.

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

The Group did not opt for early application of standards and interpretations not mandatory as of February 1, 2016, in particular the following:

- IFRS 15 "Revenue from Contracts with Customers" applicable to fiscal years beginning on or after January 1, 2018;
- IFRS 9 "Financial instruments" applicable to fiscal years beginning on or after January 1, 2018;

The impact of these new standards on consolidated financial statements is currently being analyzed.

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 at January 31, 2017, in particular IFRS 16 "Leases" applicable to fiscal years beginning on or after January 1, 2019. The impact of this new standard on consolidated financial statements is currently being analyzed.

Note 1.4. Use of estimates and assumptions

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

Note 2. Significant events of the year

Change in scope of consolidation – see details in notes 3.2 and 3.4

In H1 2016, Group acquired 100% of the capital of the U.S.-based company Mineset Inc. on February 5, 2016. This acquisition was financed through a drawdown on the syndicated loan signed in November 2015.

The Group also repurchased a number of minority interests, particularly concerning ESI Software Germany, of which the Group holds 98.5% at January 31, 2017, ESI Services Tunisia of which the Group owns 95%, and CyDesign Labs Inc. of which the Group owns 99.9%.

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 at which ESI Group takes control until the date when control is transferred outside the Group. Associates, defined as companies over which the Group exercises significant influence, are accounted for using the equity method. The Group does not own stakes in any entity over which it exercises joint control.

The Group's scope of consolidation at January 31, 2017 is detailed in note 3.4.

Closing date

Subsidiaries with a closing date other than 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. ESI Group's functional and presentation currency is the euro.

Balance sheet items of foreign subsidiaries are translated to euros at the closing rate, with the exception of components of the net equity, which are maintained at the historical rate. Income statements are translated at the average exchange rate for the period. Translation differences are recorded in a specific "Translation differences" account on a separate line in the Other Comprehensive Income.

Transactions and balances in foreign currencies

At the closing date, monetary assets and liabilities denominated in foreign currencies 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 "Translation differences."

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, in "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 date. The balance is allocated either to Goodwill ("full goodwill method") or to Equity ("partial goodwill method"). Discounting adjustments are recorded in the Financial Result. Subsequent gains and losses (or changes) in fair value of the liability are recognized directly in equity

At the acquisition date, goodwill represents the difference between:

- The fair value of the consideration transferred, plus the total minority interests in the acquiree and, for step acquisitions, the fair value of the stake previously held at the corresponding acquisition date, revaluated in the income statement; and
- The net fair value of the identifiable assets and liabilities acquired.

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 at least once a year and when an impairment indicator is identified. Goodwill is allocated to cash-generating units ("CGU") for the purposes of impairment test.

For intangible assets acquired in the context of a business combination, the amortization expenses 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, etc.).

As the Group has pursued its development, it has become clear that certain technologies acquired to resolve a specific issue could be used to resolve other issues as well. Incorporating this technology portfolio in the Group's software packages makes it 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 revenue to a specific technology and to thus create a CGU for each technology or software program.

In addition, the revenue earned by a sales subsidiary is dependent not only on its own commercial performance but also, even more so, on the software offering. The large multinational corporations with which ESI Group works regard the Group as a partner. As both a software publisher and technological partner, ESI helps implement standardized methods within their organizations. It should be noted that the Group's top twenty customers have accounted for more than 40% of its order bookings for several years.

The impairment test is based on discounted value of forecast 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 following year, Y+1;
- Cash flows for the years Y+2 to Y+5 are estimated on the basis of Y+1 data by applying growth rates that reflect the Group's strategy, have been approved by senior management and, can be based on past experience.

The discount rate applied as of January 31, 2017 is the Group's weighted average cost of capital (WACC) adjusted with a risk premium. It stands at 11.4% compared to 11% at January 31, 2016.

The present value of the CGU is determined by adding:

- The present value of forecast 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 long-term growth rate applied is 1%.

This present value of the CGU either confirms the fair value of the assets of the CGU, or serves as a basis for calculating potential impairment.

The impairment test performed on the CGU at January 31, 2017 did not identify any loss in value for these assets. The test was analyzed for sensitivity to reasonably plausible changes in key assumptions, based on a 1% increase in the discount rate and a 1% decrease in the long-term growth 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. Change in goodwill

(in € thousands)	January 31, 2016	Increase	Decrease	Foreign exchange gain/loss	January 31, 2017
Gross values	38,508	2,223		78	40,810
TOTAL NET VALUES	**38,508**	**2,223**		**78**	**40,810**

Acquisition of Mineset Inc.

In February 2016, ESI Group acquired a 100% interest in the US-based company Mineset Inc., specialized in machine learning. At the preliminary allocation of the acquisition price of €4.017 million, the net assets acquired were revaluated at €1.797 million. Details of this valuation are presented below. As a result, goodwill comes to €2.22 million.

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

Follow-up on FY2015 acquisitions

Acquisition of CIVITEC

In March 2015, ESI Group acquired an 80% interest in CIVITEC. The definitive allocation of the acquisition price of €0.9 million remained unchanged vis-a-vis the preliminary valuation and did not lead recognition of goodwill. The net asset value described below comes to €1.125 million for a 100% stake, i.e. €0.9 million for the interest held by ESI Group (80%).

(in € thousands)	Definitive allocation	Preliminary allocation
Deferred tax assets on tax loss carryforwards	272	272
Not booked pension obligations	(9)	(9)
Carrying amount of net assets prior to the acquisition	863	863
NET ASSET VALUE AT ACQUISITION DATE (100%)	**1,125**	**1,125**

Acquisition of ITI GmbH

In January 2016, ESI Group acquired a 96% interest in ITI GmbH. Allocation of the acquisition price of €17.952 million led to the recognition of goodwill amounting to €14.541 million. The net asset value described below comes to €3.549 million for a 100% stake, i.e. €3.407 million for the interest held by ESI Group (96%).

(in € thousands)	Allocation at January 31, 2017	Allocation at January 31, 2016
Client Relationship	3,044	3,044
Capitalized development costs	1,469	1,469
Deferred tax liabilities on intangible assets	(1,422)	(1,354)
Deferred tax assets on tax loss carryforwards	220	220
Carrying amount of net assets prior to the acquisition	170	174
Other items	68	-
NET ASSET VALUE AT ACQUISITION DATE (100%)	**3,549**	**3,553**

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)	January 31, 2017	January 31, 2016
Amortization of acquired intangibles assets	(1,470)	(1,160)
Acquisition costs	(195)	(1,294)
Other external expenses and income	21	-
TOTAL OTHER OPERATING INCOME AND EXPENSES	**(1,644)**	**(2,454)**

Note 3.3. Off-balance sheet commitments related to acquisitions during the fiscal year

There are no off-balance sheet commitments related to the acquisition of Mineset Inc.

Note 3.4. List of entities in the scope of consolidation

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

Subsidiaries	Date of creation or acquisition	Subsidiary head office	% of capital held January 31, 2017	January 31, 2016
SUBSIDIARIES FULLY CONSOLIDATED				
Engineering System International	April 1973	Rungis, France	100%	100%
Engineering System International GmbH	July 1979	Neu-Isenburg, Germany	100%	100%
ESI Japan, Ltd.	July 1991	Tokyo, Japan	97%	97%
ESI North America, Inc.	March 1992	Farmington Hills, Michigan, USA	100%	100%
Hankook ESI Co., Ltd.	September 1995	Seoul, South Korea	99%	99%
ESI Group Hispania s.l.	February 2001	Madrid, Spain	100%	100%
STRACO	April 2001	Compiègne, France	98%	98%
Mecas ESI s.r.o.	May 2001	Plzen, Czech Republic	95%	95%
ESI UK Limited	January 2002	Oxford, England	100%	100%
ESI US Holding, Inc.	August 2002	Dover, Delaware, United States	49%	49%
ESI US R&D, Inc.	August 2002	San Diego, California, USA	74%	74%
Calcom ESI SA	December 2002	Lausanne, Switzerland	99%	99%
ESI Software (India) Private Limited	February 2004	Bangalore, India	100%	100%
Hong Kong ESI Co., Limited	February 2004	Hong Kong, China	100%	100%
Zhong Guo ESI Co., Ltd	February 2004	Guangzhou, China	100%	100%
ESI-ATE Holdings Limited	July 2006	Hong Kong, China	100%	100%
ESI ATE Technology (China) Ltd.	August 2006	Beijing, China	100%	100%
ESI South America Comércio e Serviços de Informatica, Ltda	June 2008	São Paulo, Brazil	95%	95%
ESI Italia s.r.l.	September 2008	Bologna, Italy	90%	90%
Pacific Mindware Engineering Private Limited	December 2008	Pune, India	100%	100%
ESI Services TUNISIA	April 2009	Tunis, Tunisia	95%	90%
ESI Group Beijing Co., Ltd	October 2010	Beijing, China	100%	100%
ESI Software Germany GmbH	August 2011	Stuttgart, Germany	98.5%	95.5%
Efield AB	December 2011	Sollentuna, Sweden	100%	100%
ESI US Inc.	February 2012	Farmington Hills, Michigan, USA	100%	100%
OpenCFD Limited	September 2012	Berkshire, England	100%	100%
CyDesign Labs, Inc.	October 2013	Palo Alto, United States	99.9%	99.5%
CYDESIGN LTD	October 2013	Oxford, England	99.9%	99.5%
ESI Services Vietnam Co., Ltd	December 2013	Ho Chi Minh City, Vietnam	100%	100%
CIVITEC	March 2015	Versailles, France	80%	80%
ITI GmbH	January 2016	Dresden, Germany	96%	96%
ITI Southern Europe	January 2016	Rungis, France	96%	96%
Mineset Inc.	February 2016	Milpitas, USA	100%	-
SUBSIDIARIES ACCOUNTED FOR USING THE EQUITY METHOD				
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. Revenue

There are two main sources of ESI Group revenue: a software user licensing and related maintenance activity, and a service activity.

To ensure better management of orders and business opportunities, the Group has a customer base and CRM (Customer Relationship Management) software. As revenue from the License activity is recognized upon installation or renewal, the notion of backlog is only relevant for the Service activity, for which revenue is recognized based on actual production. The backlog represents at all times the amount of revenue 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

Licensing revenue is generated 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 one year. In this case, revenue from maintenance accounts for 15% of total royalties;
- Sale of perpetual rights to use the software plus one year (renewable) of maintenance services. In this case, revenue from maintenance accounts for 5% of total royalties;
- Maintenance services on software for which perpetual user rights have been purchased.

Maintenance services include updates and technical support.

Revenue from user licensing is recorded when:

- The Group can demonstrate the existence of an agreement with the client;
- The software has been delivered and accepted;
- The amount of the user license for the software is determined or determinable;
- Recovery is likely.

If any of these four criteria is not met, revenue from user licensing is deferred until all criteria are met. Revenue from maintenance is differed and recorded according to the straight-line method over the term of the maintenance agreement, which is generally one year.

Services

Service revenue consists mainly of consulting and training fees. It is recognized according to the percentage of completion method. Corresponding costs are recorded as soon as they are incurred. A provision for losses on completion is recorded if necessary.

Services also include sale of IT equipment, particularly that related to Virtual Reality.

(in € thousands)	January 31, 2017	January 31, 2016
TOTAL LICENSES AND MAINTENANCE	108,316	97,038
Consulting	31,177	26,524
Other revenue	1,058	1,155
TOTAL SERVICES	32,235	27,680
CONSOLIDATED REVENUE	**140,551**	**124,718**
O/w total co-financed research and development projects included in service revenue	*5,041*	*3,209*

Note 4.2. Trade receivables

Trade receivables are initially recorded at their nominal value, as the potential impact of discounting is immaterial. They are then recorded at amortized cost, less impairment resulting from irrecoverability, when applicable.

Receivables are depreciated when their net realizable value, estimated by reference to the risk of non-recovery as determined by type of receivable, is less than their carrying amount. Depending on the nature of receivables, the risk associated with bad debts is appreciated individually or based on statistical methods.

DETAILS OF TRADE RECEIVABLES

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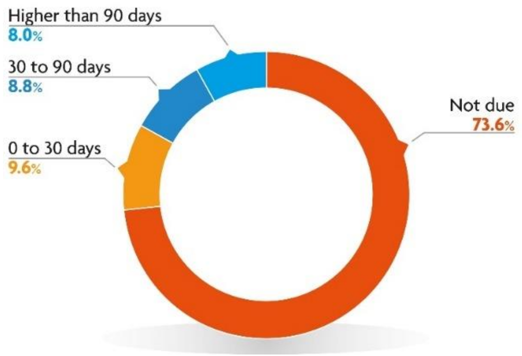
- Major industrial corporations, especially companies in the automotive, aerospace and steel industries;
- Government agencies for governmental and defense projects;
- Academic bodies.

(in € thousands)	January 31, 2017	January 31, 2016
Trade receivables	62,143	57,472
Work in progress and non-invoiced receivables	16,389	13,902
Impairment of trade receivables	(4,468)	(3,699)
TOTAL TRADE RECEIVABLES, NET OF IMPAIRMENT	**74,064**	**67,676**

(in € thousands)	January 31, 2016	Provisions	Reversals	Foreign exchange gain/loss	January 31, 2017
Impairment	(3,699)	(1,145)	344	32	(4,468)
TOTAL	**(3,699)**	**(1,145)**	**344**	**32**	**(4,468)**

AGE OF TRADE RECEIVABLES



(in € thousands)	January 31,2017	January 31,2016
Not due	54,538	51,105
0 to 30 days	7,079	8,301
30 to 90 days	6,529	5,299
Higher than 90 days	5,918	2,971
Total	**74,064**	**67,676**

The large amount of not due receivables is due to the highly seasonal nature of sales, with Q4 accounting for more than 40% of Group revenue.

Receivables overdue by more than 90 days mainly include Chinese state and public-sector clients, whose payment terms are longer.

Note 4.3. Deferred income

Deferred income essentially corresponds to maintenance to be rendered.

(in € thousands)	January 31, 2017	January 31, 2016
Maintenance services to be rendered	18,765	16,204
Other deferred income	3,624	4,860
DEFERRED INCOME	**22,389**	**21,064**

Note 4.4. Operating expenses

(in € thousands)	January 31, 2017	January 31, 2016
Other purchases and external expenses	(14,026)	(13,300)
Real estate rentals	(6,291)	(5,187)
Fees	(3,168)	(2,786)
Taxes and duties	(587)	(538)
Amortization and provisions	(3,044)	(2,921)

Personnel costs (1)	(86,592)	(78,594)
Other external expenses and income	(11,478)	(9,585)
TOTAL CURRENT OPERATING EXPENSES	(125,186)	(112,911)
Other operating income and expenses (2)	(1,644)	(2,454)
TOTAL OPERATING EXPENSES	**(126,830)**	**(115,365)**

(1) Details on personnel costs are presented in note 5.2.
(2) Details on other operating income and expenses are presented in note 3.2.2.

Note 4.5. Information by geographic area

In accordance with paragraphs 31-34 of IFRS 8, ESI Group presents revenue from ordinary activities and non-current assets by region (the three main regions being EMEA (Europe, Middle East, Africa), Asia-Pacific and the Americas). Indeed, the Group works in a unique segment, with close ties between its two identified business, Licenses and Services.

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

(in € thousands)	Europe, Middle-East and Africa	Asia-Pacific	Americas	Eliminations	Consolidated
YEAR ENDED JANUARY 31, 2017					
External clients	63,419	54,864	22,268	-	140,551
Affiliate companies	80,148	9,286	8,863	(98,296)	-
NET SALES	143,567	64,150	31,131	(98,296)	140,551
ASSETS ALLOCATED	**286,979**	**41,661**	**23,506**	**(124,431)**	**227,715**
YEAR ENDED JANUARY 31, 2016					
External clients	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**

Intra-Group transactions consist mainly of royalties paid by the Group's subsidiaries. These royalties are proportional to Licensing revenue and based on the practices observed between software publishers and distributors within the 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, 2017 are listed below:

Due at January 31 *(in € thousands)*	2018	2019	2020	2021	2022 and beyond	Total
Minimum rental payment	6,693	4,519	3,645	2,692	4,117	21,665

At January 31, 2017, ESI Group also had a rent security deposit with Crédit du Nord in an amount of €82 thousand, established in December 2012 and expiring in December 2022.

Note 5. Personnel costs and employee benefits

Note 5.1. Headcount

Headcount is calculated on a "Full-Time Equivalent" (FTE) basis and distributed as follows:

(FTE)	January 31, 2017	January 31, 2016
France	286	288
Rest of the world	867	767
	1,153	**1,054**

Note 5.2. Personnel costs

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

(in € thousands)	January 31, 2017	January 31, 2016
Salaries	(68,962)	(61,876)
Payroll taxes	(16,653)	(15,858)
Share-based payments	(333)	(286)
Post-employment benefits	(644)	(575)
TOTAL PERSONNEL COSTS	**(86,592)**	**(78,594)**

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 entitles the employee to one unit of benefit rights and evaluates each of these units separately to arrive at a final commitment. These calculations use assumptions in terms of mortality, staff turnover and future salary increases.

Defined-benefit pension schemes and long-term benefits recognized in accordance with IAS 19 R are as follows:

- For France: retirement benefits, supplementary pension plan provided by an insurance company;
- For Korea, India and Japan: severance pay owed to employees upon departure from the company regardless of reason for departure, calculated on the basis of length of service within the company;
- For Germany: defined-contribution benefits owed to selected managers.

5.3.1. Actuarial assumptions

Discount rates

Discount rates correspond to:

- For France: AA-rate corporate bond rates in the Eurozone, adjusted according to the duration of the Group's commitments;
- For other counties: rates reported by the central banks.

Discount rates	January 31, 2017	January 31, 2016
France	1.70%	1.90%
Germany	1.98%	-
Japan	0.60%	0.75%
South Korea	2.20%	2.10%
India	7.30%	8.40%

Rate of salary increase

Details by country are presented below:

Rate of salary increase	January 31, 2017	January 31, 2016
France	2.50%	2.50%
Germany	2.00%	-
Japan	3.00%	3.00%
South Korea	3.00%	3.00%
India	10.00%	8.33%

Staff turnover rates

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)	January 31, 2016	Change in scope of consolidation	Change in equity (OCI)	Provisions	Reversals	Foreign exchange gain/loss	January 31, 2017
TOTAL PROVISION FOR EMPLOYEE BENEFITS	**6,820**	**308**	**724**	**542**	**(100)**	**178**	**8,472**

ANALYSIS OF THE VARIATION IN THE PROVISION RECORDED IN THE BALANCE SHEET:

(in € thousands)	January 31, 2017	January 31, 2016
CHANGE IN COMMITMENTS		
Commitments at opening	**(7,520)**	**(6,944)**
Acquired companies	(967)	(9)
Costs of services rendered in the period	(743)	(690)
Interest expenses	(191)	(136)
Benefits paid	244	118
Actuarial gains and losses	(758)	69
Foreign exchange gain/loss	(216)	73
COMMITMENTS AT CLOSING	**(10,152)**	**(7,520)**
CHANGE IN FAIR VALUE OF ASSETS		
Fair value of assets at opening	**700**	**95**
Acquired companies	659	-
Yield on assets	25	6
Employer contributions (1)	367	633
Benefits paid	(144)	(6)
Actuarial gains and losses	34	4
Foreign exchange gains and other	**38**	**(32)**
FAIR VALUE OF ASSETS AT CLOSING	**1,680**	**700**
NET EXPENSE FOR THE YEAR		
Costs of services rendered	(743)	(690)
Finance charges	(166)	(130)
Interest expenses	(191)	(136)
Yield on assets	25	6
NET EXPENSE FOR THE YEAR	**(909)**	**(820)**
PROVISION RECORDED IN THE BALANCE SHEET		
Commitments financed	(4,230)	(2,439)
Fair value of assets	1,680	700
Net commitments financed	**(2,550)**	**(1,739)**
Commitments not financed	(5,923)	(5,082)
PROVISION AT CLOSING	**(8,472)**	**(6,820)**
CHANGE IN PROVISION		
Provision at opening	**(6,820)**	**(6,849)**
Net expense for the year	(909)	(820)
Actuarial gains and losses	(724)	73
Employer contributions (1)	367	633

Benefits paid	100	112
Acquired companies	(308)	(9)
Foreign exchange gain/loss	(178)	40
PROVISION AT CLOSING	**(8,472)**	**(6,820)**

(1) The change in hedging assets corresponds primarily to Korea.

5.3.3. Sensitivity of commitments to fluctuations in the discount rate

(in € thousands)

Commitment – 0.5%	(10,552)
Commitment	(10,152)
Commitment + 0.5%	(9,308)

(in € thousands)

Total actuarial gains/losses	**(724)**
Experience adjustment	(173)
Change in financial assumptions	(543)
Yield on assets	(8)

Note 5.4 Share-based payments

Stock options may be granted to selected Group employees. They entitle employees 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, additionally to continued employment requirement.

In accordance with IFRS 2, 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, the main parameters of which include: 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 Group employees. 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 and free share grants have been authorized by various General Meetings and could potentially dilute ESI Group's capital. The table below describes the status of the various plans under which options have been granted but not yet exercised.

Plan number	Year of implementation	Number of stock options/shares allotted or to be allotted	Number of stock options/shares granted	O/w performance shares	Weighted average exercise price	Number of existing stock options/shares at January 31, 2017	Year that stock options can be exercised
Plan 10	2012	180,000	180,000	62,300	25.95	111,175	2020-2025
Plan 15	2013	294,538	20,000	20,000	21.66	20,000	2025
Plan 17	2014	180,000	17,350	0	24.97	17,350	2023
Plan 18	2016	297,753	0			0	
TOTAL STOCK OPTIONS		957,291	217,350	82,300		148,525	
Plans 6 and 7	2016	60,000	27,262	0	0	27,208	2018-2020
TOTAL FREE SHARES		60,000	27,262	0	0	27,208	
TOTAL STOCK OPTIONS AND FREE SHARES		**1,012,291**	**244,612**	**82,300**		**175,733**	

The total expense related to share-based payments for the fiscal year ended January 31, 2017 stands at €80 thousand. That related to free shares stands at €253 thousand.

All stock options and free shares include a continued employment requirement.

Movements in stock options and free shares plans are as follows:

	2016		2015	
	Numbers of stock options and free shares	Weighted average exercise price	Numbers of options and free shares	Weighted average exercise price
STOCK OPTIONS AND SHARES EXISTING AT OPENING	207,080	20.54	178,330	19.71
Stock options/free shares granted	37,262	6.27	45,500	24.26
Stock options expired or canceled	(12,544)	25.75	(10,100)	25.81
Stock options exercised and free shares delivered	(56,065)	6.98	(6,650)	8.86
STOCK OPTIONS AND SHARES EXISTING AT CLOSING	175,733	21.56	207,080	20.54
OPTIONS THAT MAY BE EXERCISED AT THE BALANCE SHEET DATE	**0**		**31,920**	**8.86**

The main data and assumptions underlying the valuation of stock options and free shares at fair value were as follows:

	Stock options			Free shares	
	Plan 10	Plan 15	Plan 17	Plan 6	Plan 7
Share price at grant date	25 to 28	25	24 to 28	30	46
Exercise period of stock options/free shares in years	3 to 5	4	1 to 5	2 to 4	2
Volatility	22% to 25%	22%	23%	n.a.	n.a.
Dividend rate	0%	0%	0%	0%	0%
Interest rate	0.3% to 1.3%	0.4%	0.7%	1.2%	1.1%

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)	January 31, 2016	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	January 31, 2017
GROSS VALUES						
Development costs	49,166	1,885	28,289	(25,447)		53,894
Intangible assets with an indefinite useful life	12,044					12,044
Other intangible assets	22,556		478	(291)	1	22,744
TOTAL	**83,766**	**1,885**	**28,767**	**(25,738)**	**1**	**88,681**
AMORTIZATION						
Development costs	(15,626)		(25,457)	25,447		(15,637)
Intangible assets with an indefinite useful life	(73)					(73)
Other intangible assets	(13,444)		(1,949)	269	(18)	(15,142)
TOTAL	**(29,143)**		**(27,406)**	**25,715**	**(18)**	**(30,851)**
NET CARRYING AMOUNTS						
Development costs	33,539	1,885	2,832			38,257
Intangible assets with an indefinite useful life	11,971					11,971
Other intangible assets	9,112		(1,471)	(23)	(16)	7,602
TOTAL	**54,623**	**1,885**	**1,361**	**(23)**	**(16)**	**57,830**

Changes related to change in scope of consolidation refer to Mineset development costs.

6.1.2. Capitalized development costs

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 development project has been established;
- The Group intends to complete the project;
- The Group will be able to use or sell the product arising from the development project;
- The product is likely to generate future economic benefits, and a market exists for this product;
- There are appropriate technical, financial and other resources available to complete the development project and to sell the resulting product;
- The Group has the ability to reliably measure the expenses attributable to the development project.

The expenses thus converted into assets include the cost of direct labor as well as subcontracting.

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 may decide to wait until several upgrades have been made before marketing a new version rather than to release several different versions with minor upgrades during the year; in other cases, a new version featuring a major innovation may be marketed even if other improvements are planned in the near future. While project releases are generally planned on a yearly basis, the actual release timeline may vary from one year to the next. These changes have an impact on amortization start dates and, consequently, on amortization amounts recorded.

Capitalized expenses are amortized on a straight-line basis over a period of 12 months for development work that leads to the yearly release of new annual versions of software packages sold by the Group, and on a straight-line basis over 24 or 36 months for development work that leads to major improvements to existing products, depending on the degree of innovation.

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 DEVELOPMENT COSTS

(in € thousands)	January 31, 2017	January 31, 2016
Development costs capitalized during the period	28,289	23,556
Development costs amortized during the period	(25,457)	(20,100)
NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS	**2,832**	**3,456**

Net value of capitalized developments costs represented 14.0 months of research and development costs (€38.3 million) incurred at January 31, 2017, compared to 13.8 months (€33.5 million) at January 31, 2016.

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

(in € thousands)	January 31, 2017	January 31, 2016
R&D COSTS INCURRED DURING THE PERIOD (1)	(32,694)	(29,109)
R&D costs capitalized during the period	28,289	23,556
R&D costs amortized during the period	(25,457)	(20,100)
French R&D tax credit	2,920	2,881
TOTAL R&D COSTS RECOGNIZED AS EXPENSES DURING THE FISCAL YEAR	**(26,942)**	**(22,772)**

(1) Including €4.405 million in expenses accounted for as direct costs in 2017, compared to €5.553 million in 2016.

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 revenue 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 (accounting for 30% of revenue 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. The impairment testing process and results at January 31, 2017 are 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:

	Method	Useful life
Office and similar software applications	Straight-line method	1 to 3 years
Other operational software	Straight-line method	3 to 5 years
Codes - third-party software integrated into 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 the end of each period or more frequently. 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. Property, plant and equipment

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:

	Method	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 10 years

6.2.2. Change in the gross value, amortization and net value of property, plant and equipment

(in € thousands)	January 31, 2016	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	January 31, 2017
GROSS VALUES						
Fixtures and fittings	3,729		96	(385)	38	3,478
Computer hardware (1)	11,858	53	1,611	(303)	49	13,270
Office furnishings and other tangible assets (1)	3,164		309	(126)	26	3,372
TOTAL	**18,751**	**53**	**2,016**	**(814)**	**113**	**20,120**
AMORTIZATION						
Fixtures and fittings	(2,502)		(222)	279	(24)	(2,469)
Computer hardware (1)	(9,397)	(22)	(1,398)	290	(26)	(10,552)
Office furnishings and other tangible assets (1)	(2,587)		(176)	126	(21)	(2,659)
TOTAL	**(14,485)**	**(22)**	**(1,797)**	**696**	**(71)**	**(15,680)**
NET CARRYING AMOUNTS						
Fixtures and fittings	1,227		(126)	(106)	14	1,010
Computer hardware (1)	2,461	32	213	(12)	23	2,717
Office furnishings and other tangible assets (1)	577		133	(1)	4	713
TOTAL	**4,266**	**32**	**220**	**(118)**	**41**	**4,440**

(1) €280 thousand in fixed assets were reclassified at opening with no impact on the gross value or total net value of the Group's property, plant and equipment.

Note 7. Financing and financial instruments

Note 7.1. Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- Long-term financial debts, short-term borrowings and overdrafts, together comprising gross debt – see details in note 7.1.2;
- Loans and other short-term financial assets, and 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

(in € thousands)	Carrying amount under IAS 39 Amortized cost	Fair value through equity	Fair value through profit and loss	January 31, 2017 Carrying amount
ASSETS				
Non-current financial assets:				
• Non-consolidated investments			124	124
• Deposits and guarantees	3,437			3,437
• Factoring of French R&D tax credit for 2014 and 2015 (debt due from the French state)	4,439			4,439
• Derivative assets			22	22
Trade receivables	74,064			74,064
Cash and cash equivalents			14,470	14,470
LIABILITIES				
Bank borrowings	46,188			46,188
Factoring of French R&D tax credit for 2014 and 2015 (debt due from ESI to the factor)	4,439			4,439
Other financial debts	796		414	1,210
Derivative liabilities		53		53
Other financial liabilities		1,247		1,247
Payables	10,895			10,895

In accordance with IFRS 13, the various valuation techniques for each financial instrument must be ranked. The different categories are as follows:

- Level 1: direct reference to quoted (unadjusted) prices accessible on active markets for identical assets or liabilities;
- Level 2: valuation method based on directly or indirectly observable data associated with the asset or liability other than the quoted prices included in level 1 data;
- Level 3: valuation method based on unobservable data.

The fair value of cash and cash equivalents is calculated using level 1.

Derivative instruments (see notes 7.1.4 and 7.3) are valued using level 2.

Debts on earnouts, put options (other financial liabilities) and investments in non-consolidated companies are valued using level 3.

7.1.2. Gross financial debt

In November 2015, ESI Group signed a €49 million syndicated loan agreement with a pool of six banks. The lines of credit for refinancing the previous syndicated loan and external growth (€39 million) have a maturity date of November 2022, partly with annual straight-line amortization. WCR financing, which aims to optimize cash management at ESI Group, heavily impacted by the highly seasonal nature of its business model, was included in the syndicated loan in the form of a €10 million revolving line of credit.

At January 31, 2017, €34.6 million of the long-term lines of credit had been used (following an initial repayment of €4.3 million) and ESI Group had established rate hedging instruments for 40% of the nominal amount of these lines (see note 7.1.4). €8 million of the revolving line of credit has been used. At the date of approval of financial statements by the Board of Directors , the entire revolv-ing line of credit had been paid off.

All financial debts are denominated in euros.

Detail and maturity of financial debt

At January 31, 2017 — Maturity at January 31

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

At January 31, 2016 — Maturity at January 31

(in € thousands)	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 financial debts	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

Financial debt by type of interest rate and maturity

At January 31, 2017 — Maturity at January 31

(in € thousands)	2018	2019	2020	2021	2022 and beyond	Total
Fixed-rate debt	163	-	-	-	-	163
Variable-rate debt	15,513	4,464	6,455	7,312	17,295	51,041
No-interest debt	129	310	65	65	65	633
TOTAL	**15,805**	**4,774**	**6,520**	**7,377**	**17,360**	**51,837**
	CURRENT: 15,805					NON-CURRENT: 36,031

7.1.3. Cash and cash equivalents

"Cash and cash equivalents" corresponds to cash, bank deposits, interest-bearing accounts, mutual funds, money market funds and other liquid and easily convertible investments subject to an insignificant risk of changes in value qualified as cash equivalents, in accordance with 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, as cash equivalents.

(in € thousands)	January 31, 2017	January 31, 2016
Cash	14,470	10,327
Marketable securities	-	-
TOTAL CASH AND CASH EQUIVALENTS	**14,470**	**10,327**

7.1.4. 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 fair value on the balance sheet.

Changes in fair value of derivative financial instruments are accounted for as follows :

- Cash flow hedges: changes in value are recognized in equity and reclassified in profit or loss until the effective completion of the forecast transaction.
- Instruments not qualifying for hedge accounting: certain derivatives that in substance represent hedges do not qualify for hedge accounting under IAS 39. Changes in fair value measurement of these derivative instruments are recognized in Financial Result.

Interest rate derivatives

Interest rate swaps signed by ESI Group are hedging instruments to the variable interest rate of the syndicated loan.

Interest rate swaps signed at January 31, 2017 are as follows:

- Three swaps of €1.9 million, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying a fixed rate of 0.195% with two banks and 0.22% with a third bank;
- Three swaps of €2.7 million, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying fixed rates of 0.16%, 0.18% and 0.19%, respectively.

At January 31, 2017, the market value of these instruments was €-34 thousand.

Foreign exchange instruments

In order to manage foreign currency risk on cash flows between the Group's 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 exchange instruments in place during 2017 concerned Japanese yen (forwards, tunnels, targets), South Korean won (non-delivery forwards) and Indian rupee (non-delivery forwards). These instruments are not considered hedging instruments as defined by IAS 39.

At January 31, 2017, the market value of these instruments was €3 thousand.

Note 7.2. Financial income and expenses

(in € thousands)	January 31, 2017	January 31, 2016
Interest and related expenses on borrowings	(1,000)	(552)
Interest income	12	30
Foreign exchange gain/(loss)	(818)	314
Floor of syndicated credit	258	(258)
Other financial expenses	(566)	(484)
FINANCIAL RESULT	**(2,115)**	**950**

The increase in borrowing expenses is due to the drawdowns on long-term syndicated lines of credit carried out in January and February 2016 following the acquisitions of ITI GmbH and Mineset Inc.

In accordance with IFRIC's position, issued in H1 2016 and stating that separate recognition is not necessary for an embedded interest rate floor in a syndicated debt contract, ESI Group reclassified to profit and loss the €258 thousand financial debt recognized at January 31, 2016.

Other financial expenses include:

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

Details on foreign exchange gains and losses are as follows:

(in € thousands)	January 31, 2017	January 31, 2016
USD	(216)	415
JPY	(823)	120
KRW	114	(200)
Other currencies	107	(21)
TOTAL	**(818)**	**314**

Note that the effect of the net foreign exchange loss on cash and cash equivalents did not exceed €-550 thousand (hedging instruments and transactions in foreign currencies). Foreign exchange losses on JPY were due to the volatility of the currency starting from June 2016.

Note 7.3. Risk management policy

Country risk and foreign currency risk

During the fiscal year ended January 31, 2017, 45.1% of the Group's revenue was generated in Europe, 39% in Asia (mainly Japan, South Korea, China and India) and 15.8% in the Americas (mainly the United States and Brazil). The Group is thus exposed to economic and political uncertainties in these areas.

The Group is also highly exposed to risks stemming from changes in foreign exchange rates: for the fiscal year ended January 31, 2017, 42.2% of revenue was generated in EUR, 19.6% in USD (US dollar), 21.7% in JPY (Japanese yen), 4.4% in KRW (Korean won) and 4.6% in CZK (Czech koruna).

Furthermore, 53.7% of costs are spent in EUR, 17.0% in USD (US dollar), 8.6% in JPY (Japanese yen), 6.5% in INR (Indian rupee), 3.2% in KRW (South Korean won), 3.0% in CZK (Czech koruna) and 2.6% in CHF (Swiss franc).

The Group's policy aims, whenever possible, to hedge budgeted net operating cash flows on the basis of budgeted exchange rates.

The table below shows the results of sensitivity analysis of EBIT to exchange rate fluctuations. The assumption 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 Current Operating Result in € millions
JPY	119.80	131.78	- 1.8
KRW	1,280.14	1,408.15	- 0.2
CZK	27.03	29.74	- 0.2
USD	1.10	1.22	- 0.1
INR	74.28	81.71	0.4
CHF	1.09	1.20	0.3

Interest rate risk

Most of the Group's financial debts feature variable interest rates. 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 for which drawdown and repayment are left to the borrower's discretion. At January 31, 2017, €8 million of the revolving credit line has been used and this line was entirely paid off at the date of approval of financial statements by the Board of Directors (April 18, 2017).

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, like-for-like, during the period than at the end of the fiscal year.

The calculations of foreign-exchange sensitivity presented below assume that financial debts remain stable at January 31, 2017 levels, meaning a fixed level of drawdown on bank loans as of that date.

The table below simulates the effects in terms of outflows of interest rates rising and falling by 1%:

(in € thousands)	< 1 year	≥ 1 year, < 5 years	≥ 5 years	Total
Variable rate financial liabilities	(15,513)	(18,231)	(17,295)	(51,041)
Variable rate financial assets				
Off-balance sheet commitments				
NET POSITION	**(15,513)**	**(18,231)**	**(17,295)**	**(51,041)**
Sensitivity to a 1-point decrease				44
Sensitivity to a 1-point increase				(251)

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 in the context of a liquidity agreement or intended to cover stock options and free share grants.

As part of its cash flow management strategy, the Group does not directly hold any other listed stock and does not invest in equity-dominated or equity-benchmark UCITS. 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. The ratios to be maintained (covenants) with regard to the syndicated loan contract entered into 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 ESI Software Germany as collateral in a credit agreement dated November 5, 2015.

As long as the Group remains bound by the collateral agreement or documents, it undertakes to adhere to the following ratios under penalty of early repayment:

- Ratio R1: Consolidated net financial debt divided by consolidated EBITDA: less than or equal to 2.9 at January 31, 2017 (tapering threshold for future years);
- 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: equal or greater than 1. If the ratio is lower than 1, the Ratio may still be considered as being met if the net consolidated cash balance is positive.

As of January 31, 2017, on the basis of the consolidated financial statements certified by the auditors, the Group was compliant with the ratios described above.

During the fiscal year ended January 31, 2017, ESI Group signed with Bpifrance a long-term financing envelope of up to €3 million over five years, €1 million of which had been used at the end of the fiscal year.

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 carryforwards. 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 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. In some cases, this review can lead the Group to derecognize deferred tax assets that it had recognized in prior years.

The Group has three tax groups:

- In France, with the parent company, ESI Group, as head company;
- In Germany, with ESI Software Germany GmbH as head company;
- In the United States, with ESI North America, Inc. as head company.

8.1.1. Income tax expense

(in € thousands)	January 31, 2017	January 31, 2016
Current taxes	(4,322)	(3,254)
Deferred taxes	330	97
TOTAL	**(3,992)**	**(3,595)**

8.1.2. Tax proof

(in € thousands)	January 31, 2017	January 31, 2016
Net income before taxes	**11,695**	**8,527**
Including share of profit of associates	*89*	*123*
Theoretical tax rate	**33.33%**	**33.33%**
Theoretical tax (expense)/benefit	**(3,868)**	**(2,801)**
Permanent differences between accounting income and taxable income	(263)	79
Impact of liability method	(268)	(85)
Impact of standard tax rate differentials between parent company and subsidiaries	207	(218)
Unrecognized deferred tax assets and unused tax losses	(736)	(381)
Recognition of previously unrecognized deferred tax assets	936	250
GROUP INCOME TAX EXPENSE	**(3,992)**	**(3,157)**
Effective tax rate	*34.4%*	*37.6%*

Note 8.2. Deferred taxes

BREAKDOWN OF DEFERRED TAXES BY TAX BASE

(in € thousands)	January 31, 2017	January 31, 2016
DEFERRED TAX ASSETS		
Tax loss carryforwards	1,928	1,616
Temporary differences related to tax treatment of maintenance	4,454	4,411
Provisions for employee benefit commitments	2,792	2,196
Temporary differences related to personnel	1,073	872
Provisions and other adjustments	654	656
TOTAL DEFERRED TAX ASSETS	10,901	9,752
DEFERRED TAX LIABILITIES		
Amortization of acquired intangible assets	(2,005)	(1,697)
Other	(958)	(788)
TOTAL DEFERRED TAX LIABILITIES	(2,963)	(2,485)
NET DEFERRED TAX	**7,939**	**7,267**

Unrecognized deferred tax assets on tax loss carryforwards came to €2.015 million. The timeframe used for estimating the recoverability of these deferred tax assets is generally five years, except in cases where the results of an entity are extremely predictable.

RECONCILIATION OF DEFERRED INCOME TAX EXPENSE ON THE BALANCE SHEET AND INCOME STATEMENT

(in € thousands)

Net deferred tax assets at opening (February 1, 2016)	**7,267**
Acquired companies	(66)
Deferred tax expenses recorded in the income statement	330
Deferred tax expenses recognized directly in equity (IAS 19 revised)	247
Foreign exchange gain/loss on deferred tax expenses	160
NET DEFERRED TAX ASSETS AT CLOSING (JANUARY 31, 2017)	**7,939**

Note 9. Equity and earnings per share

Note 9.1. Share capital, reserves and treasury stock

ESI Group's share capital is made up of ordinary shares.

The "Currency translation difference" line item 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.

Share capital

At January 31, 2017, ESI Group's share capital was €17.976 million, comprising 5,991,992 common shares with a par value of €3 each.

Dividend payout

ESI Group did not pay out any dividend during the period.

Treasury shares

The number of treasury shared declined by 11,498 shares over the fiscal year. The percentage of capital held as treasury shares following these transactions stood at 7.0% at January 31, 2017, compared to 7.2% at January 31, 2016. The Group owns a total of 419,386 treasury shares, purchased at a historical cost of €4.437 million and with a market value of €19.439 million at the same date, for an unrealized gain of €15.001 million.
€4.525 million corresponding to treasury shares and adjustments for gains or losses on past disposals is 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 interests

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 table below details the net income (Group share) per share:

(in € thousands)	January 31, 2017	January 31, 2016
NET INCOME (GROUP SHARE)	**7,523**	**5,330**
Net earnings per share *(in euros)*	1.36	0.96
Average number of shares	5,547,500	5,534,542
Diluted earnings per share *(in euros)*	1.35	0.96
Average number of diluted shares	5,591,671	5,577,169

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)	January 31, 2017	January 31, 2016
Security deposits	3,082	1,957
Factored French R&D tax credit	4,439	1,991
Other long-term assets	355	-
Investments in non-consolidated companies	24	124
TOTAL OTHER NON-CURRENT ASSETS	**7,900**	**4,072**

Security deposits mainly concern real estate rentals. Factored receivables under the French R&D tax credit concern FY2014 and FY2015 (see Note 7.1.2). Factoring from previous years was deconsolidated.

10.1.2. Other current receivables

(in € thousands)	January 31, 2017	January 31, 2016
French R&D tax credit	3,230	2,836
Other tax credits	1,488	2,647
VAT and other receivables	7,554	7,208
TOTAL OTHER CURRENT ASSETS	**12,273**	**12,692**

French R&D tax credit receivables as of January 31, 2017 are related to costs incurred in FY2016.

10.1.3. Prepaid expenses

Prepaid expenses consist primarily of rent for real estate and other property.

Note 10.2. Other liabilities

10.2.1. Tax payables, employee-related liabilities and other short-term liabilities

(in € thousands)	January 31, 2017	January 31, 2016
Employee-related liabilities	14,061	13,335
Tax payables	10,494	9,958
Other current liabilities	4,774	3,300
TAX PAYABLES, EMPLOYEE-RELATED LIABILITIES AND OTHER SHORT-TERM LIABILITIES	**29,329**	**26,593**

Tax payables consist primarily of VAT payables in the amount of €8.279 million.

10.2.2. Other provisions

In accordance with 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)	January 31, 2016	Provisions	Reversals – provisions used	Reversals – provisions not used	Foreign exchange gain/loss	January 31, 2017
Disputes	1,551	105	(623)	-	8	1,042
CURRENT PROVISIONS FOR LIABILITIES	**1,551**	**105**	**(623)**	**-**	**8**	**1,042**

Reversals during the fiscal year essentially concerned tax and employee-related risks France. The provision referring to tax audit for the years 2009-2011 has been totally reversed, as the audit is finished and the tax adjustment has been paid.

Note 11. Related party transactions

Executive corporate officers' compensation

Compensation and benefits paid to the Group's three executive corporate officers during the fiscal years ended January 31, 2017 and January 31, 2016 breaks down as follows:

(in € thousands)	January 31, 2017	January 31, 2016
Fixed compensation	738	739
Variable compensation	26	
Travel bonus	134	118
Benefits in kind	207	204
Directors' fees	16	16
TOTAL	**1,121**	**1,079**

Related party transactions

During the fiscal year, Ms. Cristel de Rouvray, Director, carried out specific assignments for ESI Group relating to human resources, consulting, and strategic management, in respect of which she received compensation in the amount of USD70 thousand. This agreement was renewed during FY2106 and reviewed by the Board of Directors at its April 8, 2016 meeting.

Note 12. Fees paid to statutory auditors

	PricewaterhouseCoopers Audit				Ernst & Young				Total			
	Amount		%		Amount		%		Amount		%	
(In € thousands, excluding tax)	Y	Y-1	Y	Y-1	Y	Y-1	Y	Y-1	Y	Y-1	Y	Y-1
STATUTORY AUDIT, CERTIFICATION, REVIEW OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS												
• Parent company	135	132	37%	52%	148	155	51%	60%	283	287	43%	56%
• Fully consolidated subsidiaries	101	77	28%	30%	133	97	46%	37%	234	174	36%	34%
	236	209	65%	82%	281	252	97%	97%	517	461	79%	90%
OTHER WORK AND SERVICES DIRECTLY RELATED TO STATUTORY AUDIT												
• Parent company	47	38	13%	15%	9	7	3%	3%	56	45	9%	9%
• Fully consolidated subsidiaries	78	9	22%	4%			0%	0%	78	9	12%	2%
	125	47	35%	18%	9	7	3%	3%	134	54	21%	11%
TOTAL	**361**	**256**	**100%**	**100%**	**290**	**259**	**100%**	**100%**	**651**	**514**	**100%**	**100%**

The Group opted to follow the recommendations of the French Association of Statutory Auditors (CNCC) to record, at the reporting date, expenses related to audit fees corresponding to services actually rendered during the period. The total budget for certification fees for the parent-company and consolidated financial statements for the fiscal year ended January 31, 2017 came to €274 thousand.

Note 13. Subsequent events

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

5.1.6. Statutory Auditors' report on the consolidated financial statements

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.
The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.
This report also includes information relating to the specific verification of information given in the group's management report.
This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended January 31, 2017

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, 2017, on:

- The audit of the consolidated financial statements of ESI Group as appended to this report;
- 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 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 that the consolidated financial statements are free of material misstatement. An audit involves sampling techniques or other methods of selection to verify information regarding the amounts and disclosures in the consolidated financial statements. An audit also involves 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 consolidated financial statements provide a true and fair view of the assets and liabilities, financial position and results of the group comprising the consolidated entities, in accordance with International Financial Reporting Standards as adopted by the European Union.

II. Justification of our assessments

In accordance with the provisions of Article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we draw your attention to the following matters:

<u>Development costs</u>

As part of our assessment 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 6.1.2 to the consolidated financial statements provides appropriate information.

<u>Impairment testing of intangible assets</u>

At each fiscal year end, your company systematically performs impairment tests on goodwill and intangible assets with indefinite useful lives, and assesses whether there exists evidence of impairment of these assets, as described in notes 3.1 (paragraph 7) 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 provided in notes 3.1 (paragraph 7) and 6.1.3 is appropriate.

<u>Deferred tax assets</u>

Note 8.1 to the consolidated financial statements presents the accounting rules and methods adopted with respect to accounting and valuation of deferred tax assets. Our work entailed assessing the data and assumptions underlying the estimation of the value of the deferred tax assets.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to our opinion as expressed in the first part of this report.

III. Specific verification

As required by law and in accordance with professional standards applicable in France, we also verified 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 18, 2017

The statutory auditors

PricewaterhouseCoopers Audit	Ernst & Young Audit
Thierry Charron	Frédéric Martineau

5.2. ESI Group annual financial statements

5.2.1. Income statement

(in € thousands)	Note	January 31, 2017	January 31, 2016 Published	January 31, 2016 Restated [1]
Sales of goods			19	19
Sales of services		84,313	79,138	79,138
NET REVENUE	E.1	84,313	79,157	79,157
Production held as inventory		543	(78)	(78)
Capitalized production		28,467	24,132	24,132
Operating subsidies		173	47	47
Reversals of depreciation, amortization, and provisions, expense transfers		675	4,282	4,282
Other income		2	2	2
INCOME FROM OPERATIONS		114,173	107,541	107,541
Purchases of raw materials and other supplies (and customs duties)		114		
Changes in inventory (raw materials and supplies)		(96)	36	36
Other purchases and external expenses	E.3	60,973	58,083	58,083
Taxes and duties	E.4	1,246	1,263	1,263
Wages and salaries		14,160	13,203	13,203
Payroll taxes		6,712	6,295	6,295
Depreciation and amortization of non-current assets	E.5	26,618	22,489	22,489
Provisions	E.5	1,041	774	838
Other expenses	E.6	212	3,749	3,749
OPERATING EXPENSES		110,981	105,893	105,956
OPERATING INCOME		**3,192**	**1,649**	**1,585**
FINANCIAL INCOME	**E.7**	**(2,492)**	**522**	**482**
CURRENT INCOME BEFORE TAX		**700**	**2,171**	**2,067**
EXCEPTIONAL INCOME	**E.8**	**(721)**	**(341)**	**(341)**
Employee profit-sharing		16		
Income tax	F.5	(1,669)	(2,206)	(2,206)
PROFIT (LOSS)		**1,632**	**4,036**	**3,932**

(1) The restated income statement at January 31, 2016 accounts for the change of accounting method for the fiscal year ended January 31, 2017, i.e. recognition of the provision for retirement obligations and post-employment benefits (see note A.2).

5.2.2. Balance sheet

Assets

(in € thousands)	Notes	Gross value	Amortization/Provisions		Net value	Restated net value [1]
				January 31, 2017	January 31, 2016	January 31, 2016
Intangible assets	C.1	80,385	(25,455)	54,931	51,770	51,770
Property, plant and equipment	C.2	8,983	(6,940)	2,043	2,201	2,201
Financial assets	C.3	70,413	(5,521)	64,892	60,891	60,891
NON-CURRENT ASSETS		159,781	(37,916)	121,865	114,862	114,862
Inventories		1,671		1,671	1,668	1,668
Down payments to suppliers		307		307	22	22
Trade receivables	C.4	58,878	(2,093)	56,785	48,898	48,898
Other receivables	C.4	9,431	(131)	9,299	9,041	9,041
Marketable securities (treasury shares)	C.5	4,375		4,375	4,106	4,106
Cash		5,328		5,328	2,856	2,856
CURRENT ASSETS		79,990	(2,224)	77,766	66,592	66,592
Prepaid expenses	C.6	2,595		2,595	2,137	2,137
Expenses capitalized, to be amortized	C.7	434		434	509	509
Foreign exchange gains and losses	C.7	1,044		1,044	560	560
TOTAL ASSETS		**243,844**	**(40,140)**	**203,704**	**184,660**	**184,660**

Liabilities

(in € thousands)	Notes	January 31, 2017	January 31, 2016	January 31, 2016 restated (1)
Share capital	D.2	17,976	17,865	17,865
Additional paid-in capital		37,749	37,469	37,469
Legal reserve		1,787	1,642	1,642
Retained earnings		30,927	30,237	27,140
Net profit (loss)		1,632	4,036	3,932
Regulated provisions		1,084	758	758
EQUITY	D.10	91,155	92,007	88,806
OTHER EQUITY	D.4	310	371	371
PROVISIONS FOR CONTINGENCIES AND CHARGES	D.5	5,031	1,445	4,645
Bank borrowings	D.7	44,103	42,884	42,884
Miscellaneous financial debt	D.8	2,633	2,398	2,398
Down payments from clients		233	230	230
FINANCIAL LIABILITIES		46,969	45,512	45,512
Trade payables		38,523	30,233	30,233
Tax payables and employee-related liabilities	D.9	6,719	5,907	5,907
Other liabilities	D.6 & D.10	11,372	5,896	5,896
OPERATING LIABILITIES AND MISCELLANEOUS DEBTS		56,614	42,036	42,036
Deferred income		345	619	619
Foreign exchange gains and losses		3,280	2,670	2,670
TOTAL LIABILITIES		**203,704**	**184,660**	**184,660**

(1) The restated balance sheet at January 31, 2016 accounts for the change of accounting method for the fiscal year ended January 31, 2017, i.e. recognition of the provision for retirement obligations and post-employment benefits (see note A.2).

5.2.3. Notes to ESI Group annual financial statements

Table of contents of notes to the annual financial statements

The balance sheet total at January 31, 2017 came to €203,704 million and the income statement for the fiscal year showed net profit of €1.632 million.
The fiscal year corresponds to a 12-month period, from February 1, 2016 to January 31, 2017.
The financial statements were prepared in accordance with the French General Accounting Plan and generally accepted accounting principles (French GAP Art. 831-1/1).
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 and change in accounting method

Note A.1. Significant events

Changes in stake in subsidiaries

- Acquisition of a 100% interest in the US-based company Mineset Inc. on February 5, 2016, financed through a drawdown on the syndicated loan.
- Buyout of minority interests in the subsidiaries ESI Software Germany (98.5% owned at January 31, 2017), ESI Services Tunisia (95%) and CyDesign Labs Inc. (99.9%).

Note A.2. Change in accounting method

As of the fiscal year ended January 31, 2017, ESI Group opted for recognition of the provision for retirement obligations and post-employment benefits in the balance sheet, and corresponding changes in the income statement. In previous years, these obligations were presented in “Off-balance-sheet commitments” in the notes to the financial statements.
This change in accounting method aims to offer a more relevant view of the Company's commitments by adopting the preferential method.
The provision for retirement obligations and post-employment benefits came to €3.604 million at January 31, 2017 and reflected the amount of the gross actuarial commitment (no hedging assets). At the start of the fiscal year, the €3.2 million provision was recorded as a corresponding decrease in retained earnings.
For information purposes, the income statement and balance sheet are presented with comparative figures at January 31, 2016 – as published last year and restated (pro forma incorporating the change in method).

Note B. Accounting principles and methods

The rules and methods remain unchanged from last year, with the exception of the change presented in note A.2.
The general accounting conventions have been applied prudently, in accordance with the following assumptions:

- Basic assumptions:
  - Going concern,
  - Consistency in accounting methods from one fiscal year to the next;
  - Independence of fiscal years;
- General rules for preparing and presenting annual financial statements: the basic method used to measure accounting items is the historical cost method.

Note B.1. Use of estimates

Preparation of the financial statements requires the use of estimates and assumptions that may have an impact on the carrying amount of certain items in the balance sheet or income statement, as well as the information provided in selected notes. ESI Group carries out comprehensive reviews of these estimates and assessments to take account of past experience and other factors judged relevant with regard to economic conditions.
These estimates, assumptions and assessments are established on the basis of existing information or situations at the time the financial statements are drawn up, and which may not reflect future realities.
These estimates mainly concern provisions for contingencies and charges and assumptions used for the valuation of equity investments and selected intangible assets.

Note B.2. Intangible assets

Research and development costs

Internal research and development costs are recorded in the appropriate expense category; expenses corresponding to research and development performed by service providers within the Group or third parties are recorded as subcontracting expenses. Internal expenses related to development work incurred during the fiscal year (wages, payroll taxes and environment-related costs) are capitalized and recognized as capitalized production.

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 projects and development costs or not meeting all of the six criteria continue to be recognized as expenses. Amortization begins upon delivery of the project. Projects that are unfinished at the closing date are capitalized as work in progress. Projects involving development of new versions of ESI software delivered on a yearly basis are amortized over 12 months.

Projects involving the development of new, significant features are amortized over 24 or 36 months depending on the degree of innovation.

Amortization begins at release of the version. If there is a risk that a project will not be marketed, a provision for depreciation is recorded on developments that will not generate future economic gains. At the end of the amortization period, development costs are removed from the asset line.

Other intangible assets

Other intangible assets (patents, software) 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 operational software	3 years on a straight-line basis
Codes - third-party software integrated into products	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. A provision based on the difference between the calculated value and the carrying amount is recorded if applicable.

Note B.3. Property, plant and equipment

Property, plant and equipment is valued at cost (purchase price plus related expenses), and amortized according to expected 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 tapering basis
Used computer equipment	1 year on a straight-line basis
Furnishings	5 to 10 years on a straight-line basis

Note B.4. Financial assets

Equity investments and related receivables, acquisition costs

Equity investments are recorded on the balance sheet at the historical cost of acquisition of shares.

At the closing date, if the restated value of the shares is less than their purchase price, a provision is established for the difference. The restated value is calculated using one of several methods according to the situation of the subsidiary in question:

- Shares in active subsidiaries are valued on the basis of a multiple of revenue adjusted for net cash position of the subsidiary, or alternatively on the basis of discounted forecast cash flows for recently acquired entities;
- Shares in dormant subsidiaries or those with reduced activity levels are valued on the basis of the share of the net equity attributable to ESI Group.

Acquisition costs are recorded as part of the cost of the shares and deducted, for tax purposes, through accelerated capital allowances, over a period of five years.

Receivables related to equity investments are impaired if there is a risk of non-recovery.

Other investments

Other investments mainly comprise deposits and guarantees and factoring guarantee funds (factoring of receivables from the French R&D tax credit).

Note B.5. Inventories

Supply inventories

Other supply inventories are valued at cost according to the first in, first out method.

Work in progress

Work in progress corresponds to consulting studies in progress and valued at production cost with a margin assessed according to the percentage of completion method.

Note B.6. Receivables and debts

Receivables and debts are measured at par value. A provision for impairment is recognized where the book value of a receivable (excluding advances to subsidiaries), based on the likelihood of recovery, is less than its accounting value. All impairment is determined on a case-by-case basis or following statistical analysis. Regarding advances granted to subsidiaries, the book value of these receivables follows the same principles as equity investments in terms of impairment.

Note B.7. 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, impairment is recorded for the difference.
At the close of the fiscal year ended January 31, 2017, mar-ketable securities were made up exclusively of the Com-pany's treasury shares, valued according to the first in, first out method.

Note B.8. Treasury shares

In the context of the authorizations, limits and objectives set by the Shareholders' General Meeting, ESI Group may purchase, exchange or transfer its own shares.
The recognition and impairment method for treasury shares depends on the objective underlying the acquisi-tion.
Treasury shares backed by the liquidity contract signed by the Company are recognized as financial assets.
Treasury shares acquired in the context of other objectives set by the General Meeting (primarily external growth and share grants to employees) are recognized as marketable secu-rities.
Impairment is recorded when the share acquisition cost exceeds the current value as determined by the average share price over the final month of the fiscal year.

Note B.9. Foreign currency transactions

Income and expenses in foreign currency are recorded at their exchange value as at the date of the transaction. Lia-bilities, receivables and cash in foreign currency are rec-orded on the balance sheet at the exchange value prevail-ing 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.10. Financial foreign exchange instruments

ESI Group uses financial instruments to manage its exposure to exchange rate fluctuations. The Group's policy is to trade in the financial markets only 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 transactions. They are recognized under financial income and expense at maturity, and presented as Off-balance-sheet commitments in the notes to the financial statements in the period between subscription and maturity.

Note B.11. Regulated provisions

Regulated provisions consist of accelerated capital allowances of two types:

- Differences between tax-related amortization and amortization for depreciation;
- Amortization of share acquisition costs.

These regulated provisions are booked in the income statement under exceptional allowances and reversals.

Note B.12. Provisions for contingencies and charges

Provisions for contingency and charges are calculated on the basis of the assessment of related risks at the balance sheet date.

Provision for retirement and post-employment benefits

Retirement commitments are valued and recognized using the projected unit credit method. This actuarial method stipulates that each period of service entitles the employee to one unit of benefit rights and evaluates each of these units separately to arrive at a final commitment. These calculations use assumptions in terms of mortality, staff turnover, discount rate, inflation rate and future salary increases.
The expense for the period is recognized:

- In operating profit or loss for the amount pertaining to cost of services and changes in actuarial gains and losses;
- In financial income and expense for the amount pertaining to interest on discounting to present value.

Differences observed between the valuation of obligations and forecasts of such obligations (on the basis of new projections or assumptions) are known as actuarial gains and losses.
The provision at the close of the fiscal year is the actuarial commitment. The Company has no hedging assets.

Note B.13. Recognition of revenue

Licensing revenue is generated from royalties paid under licensing agreements granted to end customers and related maintenance services.

This revenue is recognized when the following four criteria are met:

- The Group can demonstrate the existence of an agreement with the client;
- The software has been delivered and accepted;
- The amount of 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 with regard to projects, such as the margin. Costs are recorded as soon as they are incurred. A provision for losses on completion is recorded if necessary.

Intragroup revenue mainly comprises royalty income received from the Group's distribution subsidiaries and income from subcontracted consulting services, re-invoicing of personnel expenses and invoicing of management fees.

<u>Co-financed projects</u>

During production of a co-financed project, the income recognized in revenue is determined on the basis of the percentage of completion of the project, on a pro-rata basis with regard to the proportion financed.

Note B.14. Tax consolidation

On 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 French competitiveness and employment tax credit (*crédit d'impôt pour la compétitivité et l'emploi* or CICE) is recognized in the income statement as a deduction from tax expense.

Note C. Asset details

Note C.1. Intangible assets

(in € thousands)	January 31, 2016	Increase	Decrease	January 31, 2017
Development costs	38,372	22,629	(25,663)	35,338
Patents, licenses, brands	27,247	43	(1,588)	25,701
Goodwill	1,028			1,028
Intangible assets in progress, development costs	9,939	12,470	(6,035)	16,373
Other intangible assets in progress		1,944		1,944
TOTAL GROSS VALUE	76,586	37,086	(33,287)	80,385
Development costs	(16,100)	(25,017)	25,067	(16,050)
Patents, licenses, brands	(8,643)	(689)		(9,332)
Goodwill	(73)			(73)
TOTAL AMORTIZATION, PROVISIONS	(24,816)	(25,705)	25,067	(25,455)
Development costs	22,272		(2,984)	19,288
Patents, licenses, brands	18,604		(2,234)	16,370
Goodwill	955			955
Intangible assets in progress, development costs	9,939	6,434		16,373
Other intangible assets in progress		1,944		1,944
TOTAL NET VALUE	**51,770**	**8,379**	**(5,218)**	**54,931**

The decrease in development costs reflects scrapping of fully amortized assets.
The decrease in the patents, licenses, brands line item reflects reclassification to other intangible assets in progress.

The goodwill mainly reflects the acquisition on July 26, 1991 from the company Engineering System International, of the branch specialized in the edition of digital simulation software (Product in Applied Mechanics). It has not been impaired or amortized since this date.

Note C.2. Property, plant and equipment

(in € thousands)	January 31, 2016	Increase	Decrease	January 31, 2017
Fixtures and fittings	2,281	52		2,333
Office furnishings and equipment	5,998	625		6,623
Other tangible non-current assets	26	1		27
TOTAL GROSS VALUE	8,305	678		8,983
Fixtures and fittings	(1,311)	(151)		(1,464)
Office furnishings and equipment	(4,771)	(682)		(5,453)
Other tangible non-current assets	(22)	(4)		(26)
TOTAL AMORTIZATION, PROVISIONS	(6,104)	(837)		(6,940)
Fixtures and fittings	970	(99)		871
Office furnishings and equipment	1,227	(57)		1,170
Other tangible non-current assets	4	(3)		1
TOTAL NET VALUE	**2,201**	**(159)**		**2,043**

Note C.3. Financial assets

(in € thousands)	January 31, 2016	Increase	Decrease	January 31, 2017
Equity investments	51,231	4,634		55,865
Receivables related to equity investments	13,012	184		13,196
Other financial assets (1)	1,354		(3)	1,351
TOTAL GROSS VALUE	65,597	4,818	(3)	70,413
Provisions for impairment of equity investments	(2,958)	(827)		(3,785)
Provisions for receivables related to equity investments	(1,749)		13	(1,736)
TOTAL AMORTIZATION, PROVISIONS	(4,707)	(827)	13	(5,521)
Equity investments	48,278	3,807		52,080
Receivables related to equity investments	11,263		13	11,460
Other investments	1,354		(3)	1,351
TOTAL NET VALUE	**60,891**	**3,991**	**10**	**64,892**

(1) This line primarily includes deposits and guarantees on rental properties for an amount of €447 thousand, factoring guarantee funds for an amount of €695 thousand, and treasury shares (liquidity contract) for an amount of €62 thousand.

Movements in shares/equity investments (gross value)

(in € thousands)	January 31, 2016	Increase	Decrease	January 31, 2017
Engineering System International	458			458
ESI Japan, Ltd	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	6			6
Ltda ESI Services TUNISIA	128	114		242
Acquisition costs ESI Services Tunisia	8			8
ESI Group Beijing Co., Ltd	543			543
ESI Software Germany GmbH	9,891	500		10,391
Acquisition costs ESI Software Germany GmbH	322			322
Efield AB	446			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
Participation Mineset Inc.		4,017		4,017
Acquisition costs Mineset Inc.	290	3		293
CIVITEC	900			900
Acquisition costs CIVITEC	62			62
ITI GmbH	17,952			17,952
Acquisition costs ITI GmbH	436			436
Cademce SAS	100			100
TOTAL	**51,231**	**4,634**		**55,865**

Movements in the provision for shares/equity investments

(in € thousands)	January 31, 2016	Increase	Reversal	January 31, 2017
ESI-ATE Holdings Limited	1,737			1,737
Hong Kong ESI CO., Limited	119			119
Zhong Guo Co., Ltd	193			193
CyDesign Labs, Inc.	910	295		1,205
OpenCFD Limited	0	432		432
Cademce	0	100		100
TOTAL	**2,958**	**827**		**3,785**

CyDesign Labs, Inc. shares have been impaired such that the net carrying amount equals the portion of the net equity of the subsidiary held by ESI, and those of the subsidiary OpenCFD have been depreciated according to the restated value of the shares. Cademce shared have been fully impaired.

Receivables related to equity investments

(in € thousands)	Gross value		Remuneration rate
	January 31, 2017	January 31, 2016	
Loan ESI North America, Inc. (USD9.7 million)	9,019	8,883	6-month Libor $ + 1% margin
Loan Hong Kong ESI (USD1.124 million) (1)	1,045	1,029	6-month Libor $ + 1% margin
Loan ESI Group Hispania SL	1,020	1,020	Profit-sharing loan capped at 5%
Loan ESI ATE Holdings (USD2.271 million) (2)	2,112	2,080	6-month Libor $ + 1% margin
TOTAL	**13,196**	**13,012**	

(1) This loan has been impaired by €0.683 million.
(2) This loan has been impaired by €1.052 million.

Note C.4. Receivables – Provisions for receivables

(in € thousands)	At January 31, 2017			At January 31, 2016
	Gross value	Due in 1 year or less	Due in between 1 and 5 years	Gross value
Loans granted to controlling interests	13,196		13,196	13,012
Loans	147	147		452
Treasury shares	62	62		41
Deposits and guarantees	1,142	4	1,138	861
Doubtful or disputed receivables	2,091	2,091		1,531
Trade receivables	10,784	10,784		10,162
Trade receivables with affiliate companies	46,003	46,003		38,753
Income tax receivables – advance payment	759	759		1,031
R&D tax credit receivable	3,083	3,083		2,836
Competitiveness and employment tax credit receivable	136	136		108
Other tax credits	155	155		255
Value added tax (VAT)	1,037	1,037		1,133
Co-financed projects	4,054	4,054		3,594
Other receivables	206	206		216
Prepaid expenses	2,595	2,595		2,137
TOTAL	**85,450**	**71,117**	**14,333**	**76,121**

Details of provisions for receivables

(in € thousands)	January 31, 2016	Increase	Reversal used	January 31, 2017
Provisions for doubtful receivables	1,548	623	(79)	2,093
Provisions for other receivables	126	5		131
TOTAL	**1,674**	**629**	**(79)**	**2,224**

Note C.5. Treasury shares

Treasury shares in the balance sheet are classified in Financial assets in an amount of €62 thousand (liquidity contract) and in Marketable securities in an amount of €4.375 million.

Change in the number of treasury shares

	January 31, 2016	Increase	Decrease	January 31, 2017
Treasury shares	430,884	117,832	129,330	419,386

The total value on the balance sheet is thus €4.437 million, compared to a market fair value of €19.439 million at January 31, 2017, for an unrealized gain of €15.001 million.

Note C.6. Prepaid expenses and expenses capitalized, to be amortized

(in € thousands)	January 31, 2017	January 31, 2016
Prepaid rent	932	644
Maintenance prepaid expenses	691	732
Other prepaid expenses	972	760
Debt issuance expenses [1]	434	509
TOTAL	**3,029**	**2,646**

(1) Amortization over the duration of the loan.

Note C.7. Foreign exchange gains and losses

These gains and losses pertain to the following balance sheet items:

(in € thousands)	January 31, 2017	January 31, 2016
Trade receivables	374	109
Trade payables	670	375
Current accounts	0	76
TOTAL	**1,044**	**560**

Note C.8. Accrued income

(in € thousands)	January 31, 2017	January 31, 2016
Receivables to be invoiced	3,043	2,630
Receivables to be invoiced from affiliate companies	1,249	636
Vendor credit notes to be issued	31	39
Miscellaneous income	108	10
TOTAL	**4,432**	**3,315**

Note D. Liability details

Note D.1. Equity

The main movements during the fiscal year are summarized in the table below:

(in € thousands)	January 31, 2016	Allocation of 2015 profit	2016 profit	Other	January 31, 2017
Capital	17,865			111	17,976
Share premium	24,938			280	25,218
ESI Software merger premium	9,677				9,677
Systus merger premium	2,854				2,854
Legal reserve	1,642	145			1,787
Retained earnings	30,237	3,891		(3,201)	30,927
Net profit for the year	4,036	(4,036)	1,632		1,632
Regulated provisions	758			326	1,084
TOTAL	**92,007**	**-**	**1,632**	**(2,484)**	**91,155**

Movements in the “Other” column reflect:

- The capital increase with the associated share issuance premium following the exercise of 36,920 share subscription options during the fiscal year;
- A decrease in retained earnings following the change in accounting method concerning retirement obligations and post-employment benefits (see Note A.2);
- Accelerated capital allowances in an amount of €326 thousand.

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 €3)	5,991,992	36,920	-
O/w preferred shares (double voting rights)	2,227,080		-

The capital increase is attributable to the exercise of share subscription options for 36,920 shares.

Note D.3. Stock subscription option plan

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/shares allotted or to be allotted	Number of stock options/shares granted	Of which performance shares	Weighted average exercise price	Number of existing stock options/shares at January 31, 2017	Year that stock options can be exercised
Plan 10	2012	180,000	180,000	62,300	25.95	111,175	2020-2025
Plan 15	2013	294,538	20,000	20,000	21.66	20,000	2025
Plan 17	2014	180,000	17,350	0	24.97	17,350	2023
Plan 18	2016	297,753	0			0	
TOTAL STOCK OPTIONS		957,291	217,350	82,300		148,525	
Plans 6 and 7	2016	60,000	27,262	0	0	27,208	2018-2020
TOTAL FREE SHARES		60,000	27,262	0	0	27,208	
TOTAL STOCK OPTIONS AND FREE SHARES		**1,012,291**	**244,612**	**82,300**		**175,733**	

All stock options and free shares include a continued employment requirement.

Note D.4. Conditional advances

(in € thousands)	January 31, 2017	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2016
Advance on Ademe financing agreement	162		162		162
Bpifrance advance	147	65	83		209
TOTAL	**310**	**65**	**245**	**0**	**371**

Note D.5. Provisions for contingencies and charges

(in € thousands)	January 31, 2016	Increase	Reversal used	January 31, 2017
Foreign exchange gains and losses (Note C.7)	560	1,044	(560)	1,044
Provisions for contingencies and charges (operating result)	885	75	(577)	383
Provision for retirement obligations (Note A.2)	3,200 (1)	404		3,604
TOTAL	**4,645**	**1,523**	**(1,137)**	**5,031**

(1) Amount at opening restated on a proforma basis, the €3.2 million was recorded as a corresponding decrease in retained earnings.

Provisions for contingencies and charges as at January 31, 2017 mainly correspond to tax and labor-related risks. The provision referring to tax audit for the years 2009-2011 has been totally reversed, as the audit has been completed and the tax adjustment has been paid.
The €404 thousand provision allowance for retirement obligations breaks down as follows:

- €343 thousand for an operating allowance, o/w €273 thousand in costs for services rendered, €107 thousand in actuarial gains and losses and €-37 thousand in services paid during the fiscal year;
- €61 thousand for a financial allowance corresponding to interest expenses.

Actuarial assumptions for retirement obligations

	January 31, 2017	January 31, 2016
Discount rates	1.70%	1.90%
Rate of salary increase	2.50%	2.50%

The discount rate corresponds to AA-rate corporate bond rates in the Eurozone, adjusted according to the duration of the Group's commitments;
Turnover rates are calculated per age group according to the past experience of the Company.

Note D.6. Statement of liabilities

(in € thousands)	January 31, 2017	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2016
Banks borrowings (D.7)	44,103	13,011	18,258	12,833	42,884
Miscellaneous financial debt (D.8)	2,633	2,633			2,398
Trade payables	7,994	7,994			5,520
Group trade payables	30,529	30,529			24,713
Personnel and related receivables (D.9)	2,697	2,697			2,217
Payroll taxes (D.9)	2,151	2,151			1,898
Value-added tax (D.9)	1,409	1,409			1,339
Other tax expense (D.9)	462	462			453
Liabilities to fixed asset suppliers	65	65			249
Other operating payables - Group and associates (D.10)	9,096	9,096			4,151
Other operating payables – out of Group (D.10)	2,211	2,211			1,496
Deferred income	345	345			619
TOTAL	**103,694**	**72,603**	**18,258**	**12,833**	**87,938**

Note D.7. Bank borrowings

At January 31, 2017, bank borrowings stand at €44.103 million and break down as follows:

- €34.553 million related to the long-term syndicated lines of credit;
- €1 million in long-term borrowings from Bpifrance;
- €8 million in drawdowns from the revolving credit line;
- €135 thousand in accrued interest on borrowings;
- €415 thousand in short-term bank overdrafts.

In November 2015, ESI Group signed a €49 million syndicated loan agreement with a pool of six banks. The lines of credit for refinancing the previous syndicated loan and external growth (€39 million) have a maturity date of November 2022, partly with annual straight-line amortization. WCR financing, which aims to optimize cash management at ESI Group, heavily impacted by the highly seasonal nature of its business model, was included in the syndicated loan in the form of a €10 million revolving line of credit.

At January 31, 2017, long-term lines of credit account for €34.6 million and ESI Group has established hedging instruments for 40% of the nominal amount of these lines. €8 million of the revolving line of credit has been used. As of the date of approval of financial statements by the Board of Directors (April 18, 2017), the entire revolving line of credit has been paid off.

Off-balance-sheet commitments associated with this borrowing are presented in Note F.4.

Note D.8. Miscellaneous financial debt

(in € thousands)	January 31, 2017	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2016
Coface financing	0				272
Employee profit sharing/interest accrued	133	133			126
Promissory note	2,500	2,500			2,000
TOTAL	**2,633**	**2,633**			**2,398**

Note D.9. Tax payables and employee-related liabilities

(in € thousands)	January 31, 2017	January 31, 2016
Provision for paid leave, including payroll taxes	2,257	2,071
Provision for bonuses to be paid to employees, including payroll taxes	1,387	1,133
Other payroll taxes	1,107	829
VAT collected	1,409	1,339
Other taxes	559	534
TOTAL	**6,719**	**5,907**

Note D.10. Other operating payables

(in € thousands)	January 31, 2016	Increase	Decrease	January 31, 2017
Subsidiaries current account	4,151	5,936	(991)	9,096
Advances on co-financed projects	1,397	699		2,096
Other liabilities	99	15		114
TOTAL	**5,647**	**6,651**	**(991)**	**11,307**

Note D.11. Foreign exchange gains and losses

These gains and losses pertain to the following balance sheet items:

(in € thousands)	January 31, 2017	January 31, 2016
Trade receivables	925	667
Trade payables	87	46
Intercompany receivables	2,079	1,895
Current accounts	189	63
TOTAL	**3,280**	**2,670**

Note D.12. Accrued expenses

(in € thousands)	January 31, 2017	January 31, 2016
Borrowings and financial debts	167	83
Trade payables	10,594	11,645
Provision for paid leave, including payroll taxes	2,257	2,071
Provision for bonuses to be paid to employees, including payroll taxes	1,387	1,133
Other tax expenses	354	168
Other liabilities (advances on co-financed projects)	2,096	1,397
Other liabilities	8	0
TOTAL	**16,863**	**16,497**

Note E. Details on income statement

Note E.1. Revenue

Breakdown by type

(in € thousands)	January 31, 2017	January 31, 2016
Software licenses	13,983	12,018
Sub-contracting, *consulting* and other income	1,865	2,908
Royalties received from Group distribution subsidiaries	57,834	54,917
Sub-contracting, *consulting* and other income - Group	4,458	4,154
Income from related activities - Group	1,638	1,477
Management fees Group	4,535	3,683
TOTAL	**84,313**	**79,157**

Breakdown by geographic area:

(in € thousands)	January 31, 2017	January 31, 2016
France	9,905	9,692
Europe (except France)	21,668	25,938
Americas	13,884	14,962
Asia	38,856	28,565
TOTAL	**84,313**	**79,157**

Note E.2. Other income from operations

(in € thousands)	January 31, 2017	January 31, 2016
Production held as inventory	543	(78)
Capitalized production	28,467	24,132
Reversal on depreciation and amortization	675	677
Reversal on impairment of trade receivables from ESI North America, Inc.	0	3,538
Other income	175	116
TOTAL OTHER INCOME	**29,861**	**28,384**

Note E.3. Other purchases and external expenses

(in € thousands)	January 31, 2017	January 31, 2016
Engineering studies and other services	9,055	8,217
Engineering studies and other services - Group	18,159	18,962
Research and development costs - Group	19,567	17,724
Materials and supplies	305	304
Leases and rental expenses	3,642	3,508
Maintenance and repairs	1,543	1,302
Insurance	302	278
Payments to intermediaries and fees	1,884	1,754
Royalties on third-party products and sales commissions	2,942	2,065
Advertising, external relations	897	754
Travel expenses	1,557	2,034

Postage, telecommunications expenses	516	568
Miscellaneous	603	612
TOTAL	**60,973**	**58,083**

Note E.4. Income tax expense

(in € thousands)	January 31, 2017	January 31, 2016
Corporate Value-Added Contribution (CVAE)	583	631
Corporate Real Estate Contribution (CFE)	129	128
Apprenticeship, continuing education and construction-related taxes	291	256
Other taxes	244	249
TOTAL	**1,246**	**1,263**

Note E.5. Operating allowances

(in € thousands)	January 31, 2017	January 31, 2016
Amortization allowance for development costs	24,831	20,752
Amortization allowance for other intangible assets	875	987
Amortization allowance for tangible assets	837	694
Amortization allowance for capitalized expenses to be amortized	75	56
Provision for impairment of trade receivables	623	621
Provision for retirement obligations	343	0
Provision for contingencies and charges	75	153
TOTAL	**27,659**	**23,264**

Note E.6. Other operating expenses

(in € thousands)	January 31, 2017	January 31, 2016
Royalties	56	56
Directors' fees	147	150
Debt forgiveness agreement with ESI North America, Inc.	0	3,538
Miscellaneous expenses	9	4
TOTAL	**212**	**3,749**

Note E.7. Financial income

(in € thousands)	January 31, 2017	January 31, 2016
Foreign exchange gain/(loss) realized	(230)	1,471
Unrealized foreign exchange gain/(loss)	(484)	313
Interest on borrowings	(868)	(431)
Interest on subsidiaries current account	39	28
Provision for retirement obligations	(61)	
Provision for impairment equity investments	(827)	(910)
Reversal provision for investments	13	150
AVIC ESI dividend	31	
Other financial income/(expenses)	(105)	(98)
TOTAL	**(2,492)**	**522**

Note E.8. Exceptional income

(in € thousands)	January 31, 2017	January 31, 2016
Profit or loss on movements of treasury shares	(25)	(8)
Accelerated capital allowances	(326)	(217)
Exceptional expense on treasury shares sales	22	(17)
Presto additional payment	(148)	
Miscellaneous	(244)	(99)
TOTAL	**(721)**	**(341)**

Note F. Other information

Note F.1. Average headcount

(in full-time equivalent)	January 31, 2017	January 31, 2016
	Headcount	Headcount
Executives	214	197
Office personnel	20	20
TOTAL	**234**	**217**

Note F.2. Compensation paid to executive corporate officers

Total compensation paid to ESI Group's three executive corporate are as follows:

(in € thousands)	January 31, 2017	January 31, 2016
Wages	473	436
Benefits in kind	49	47
Directors' fees	16	16
Compensation paid by controlled companies	426	423
Fringe benefits paid by controlled companies	158	158
TOTAL	**1,121**	**1,079**

Note F.3. Branches

There are two branches integrated within ESI Group's financial statements:

Name	Address	Country
ESI Group Netherlands – Branch Office	Postbus 1000-Box E57-2260BA Leidschendam	Netherlands
ESI Group Shanghai Representative Office	Cross Region Plaza, Unit 20D, 899 Lingling Road 200235 Shanghai	China

Note F.4. Off-balance sheet commitments

Future lease obligations

(in € thousands)	Less than 1 year	Between 1 and 5 years
Real estate rentals	1,409	3,158
Movable property rentals	1,385	530
TOTAL	**2,794**	**3,688**

Future lease commitments correspond to the outstanding amounts due on the Group's main lease and rental contracts until the contractual next maturity date.

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 bound by the collateral agreement or documents, it undertakes to adhere to the following ratios under penalty of early repayment:

- Ratio R1: Consolidated net financial debt divided by consolidated EBITDA: less than or equal to 2.9 at January 31, 2017 (tapering threshold for future years);
- 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: equal or greater than 1. If the ratio is lower than 1, net consolidated cash balance should be positive.

As of January 31, 2017, on the basis of the consolidated financial statements certified by the auditors, the Group was compliant with the ratios described above.

During the fiscal year ended January 31, 2017, ESI Group signed with Bpifrance a long-term financing envelope of up to €3 million over five years, €1 million of which had been used at the end of the fiscal year.

In terms of managing exposure to fluctuations in exchange rates and interest rates, ESI Group uses the following financial instruments, recognized under financial income and expense at maturity:

- Interest rate derivatives
  - Three swaps in a nominal amount of €1.9 million, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying a fixed rate of 0.195% with two banks and 0.22% with a third bank;
  - Three swaps in a nominal amount of €2.7 million, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying fixed rates of 0.16%, 0.18% and 0.19%, respectively.
  - At January 31, 2017, the market value of these instruments was €-34 thousand.
- Foreign exchange instruments:
  - In order to manage foreign currency risk on cash flows between the Group's 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 exchange instruments in place at January 31, 2017 concerned Japanese yen (forwards, tunnels, targets), South Korean won (non-delivery forwards) and Indian rupee (non-delivery forwards).
  - At January 31, 2017, the market value of these instruments was €3 thousand.

ESI Group also has an obligation relating to the 2015 acquisition of Presto: a variable earnout payable in three installments to the founders on the first three anniversaries of the acquisition, on condition of their employment at ESI on the payment dates. The first payment carried out during the fiscal year ended January 31, 2017 was recognized in exceptional items.

Pledges

At January 31, 2017, ESI Group had a rent security deposit with Crédit du Nord in an amount of €82 thousand, established in December 2012 and expiring in December 2022.

Note F.5. Reconciliation of profit /(loss) and tax income/(charge)

(in € thousands)	Profit (loss) before tax	Reconciliation of income/loss	Taxable income	Tax (expense)/income	Profit (loss) after tax
Current income (loss)	700	1,817 (1)	2,517	(1,318)	(619)
Exceptional income	(721)	(4)	(725)	242	(479)
Employee profit sharing				(16)	(16)
Competitiveness and employment tax credit				136	136
French R&D tax credit				2,610	2,610
TAX INCOME (LOSS)	**(21)**	**1,812**	**1,791**	**1,653**	**1,632**

(1) This amount of €1.817 million refers primarily to the tax neutralization of the expense of branches included in the financial statements, in the amount of €877 thousand, as well as to provisions for equity investments in the amount of €826 thousand.

Note F.6. Increases and decreases in future tax liabilities

(in € thousands)	January 31, 2017
Special social security contribution (*contribution sociale de solidarité*)	88
Translation differences	3,280
Interest	852
TOTAL TEMPORARY DIFFERENCES	**4,219**
NET DECREASE IN FUTURE INCOME TAX LIABILITIES (TAX RATE OF 33.33%)	**1,406**

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.7. ESI Group, consolidating company

ESI Group is the consolidating holding company of the Group of the same name.

Note F.8. Table of controlled entities and affiliates (At January 31, 2017)

(in € thousands)	Head-quarters	Capital (converted at the closing rate)	Shareholders' equity other than capital and net profit for the year (converted at the closing rate)	% of capital owned *(As a %)*	Carrying amount of shares held Gross	Net	Outstanding loans and advances granted by the Company or by the subsidiary	Total guarantees granted by the Company	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
A. DETAILED INFORMATION ON EACH SECURITY WITH GROSS VALUE EXCEEDING 10% OF THE COMPANY'S CAPITAL											
1. Over 50%-owned subsidiaries											
Engineering System International	France	1,020	2,559	100.0	458	458	(1,652)		15,608	(22)	
STRACO	France	499	2,981	97.7	1,789	1,789	(534)		11	12	
ESI Japan, Ltd.	Japan	82	3,729	97.0	75	75			31,002	1,384	
Hankook ESI Co., Ltd.	South Korea	1,185	(2,294)	98.8	941	941			6,393	(201)	
ESI North America, Inc.	USA	0	(2,543)	100.0	3,726	3,726	9,019		23,432	344	
ESI Group Hispania s.l.	Spain	100	(987)	100.0	100	100	1,020		3,421	218	
Mecas ESI s.r.o.	Czech Republic	15	425	95.0	912	912	(1,249)		7,821	692	
ESI UK Limited	United Kingdom	116	55	100.0	164	164			4,869	1,012	
ESI US R&D, Inc. (1)	USA	237	910	74.0	111	111			9,820	401	
Calcom ESI SA	Switzerland	94	285	98.5	2,678	2,678			3,300	50	
Zhong Guo Co., Ltd	China	0	232	100.0	193	0			0	(10)	
ESI Software (India) Private Ltd	India	1	3,363	100.0	2	2			9,151	694	
Hong Kong ESI Co., Limited	China	1	(870)	100.0	119	0	1,045		0	(1)	
ESI-ATE Holdings Limited	China	0	(1,361)	100.0	1,737	0	2,112		0	(2)	
ESI Italia s.r.l.	Italy	500	482	90.0	656	656			4,813	125	
ESI South America Comércio e Serviços de Informática, Ltda	Brazil	6	59	95.0	6	6			869	(85)	
ESI Services TUNISIA	Tunisia	86	621	95.0	242	242			626	179	
ESI Group Beijing Co., Ltd	China	676	388	100.0	543	543			4,050	792	31
ESI Software Germany GmbH	Germany	517	4,738	98.5	10,391	10,391			8,309	753	
Efield AB	Sweden	11	504	100.0	446	446			1,313	198	
OpenCFD Limited	United Kingdom	0	666	100.0	2,351	1,920	(761)		1,008	(549)	
CyDesign Labs, Inc.	USA	1,422	(416)	99.9	1,904	699				(299)	
ESI Services Vietnam Co., Ltd	Vietnam	88	13	100.0	124	124			219	42	
CIVITEC	France	1,125	(506)	80.0	900	900	(192)		398	(104)	
ITI GmbH	Germany	26	479	96.0	17,952	17,952			6,779	760	
Mineset Inc.	USA	0	33	100	4,017	4,017			2,134	121	
2. 10–50% owned subsidiaries											
ESI US Holding, Inc.	USA	720	(591)	49.0	796	796			0	0	
AVIC-ESI	China	1,346	436	45.0	576	576			4,293	197	

(1) ESI US R&D, Inc.: direct interest = 49%; indirect via US Holdings = 25%.

Note F.9. Subsequent events

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

5.2.4. Statutory Auditors' report on the annual financial statements

This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.
The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.
This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders.
This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended January 31, 2017

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, 2017, 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 annual 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 that the annual 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 involves 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, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.
Without qualifying the opinion expressed above, we draw your attention to note A.2 to the annual financial statements, which present the change in accounting method regarding the provision for retirement obligations and post-employment benefits.

II. Justification of our assessments
In accordance with the provisions of Article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we draw your attention to the following matters:

<u>Development costs</u>
Note B.2 to the annual financial statements presents the accounting rules and methods adopted with respect to recognition of research and development costs. As part of our assessments of the accounting principles followed by your company, we reviewed the criteria used for capitalizing and amortizing research and development expense and measuring the recoverable amount. We ensured that notes B.2 and C.1 to the financial statements provide appropriate information.

<u>Investments</u>
Investments are valued in accordance with the valuation methods described in note B.4 to the annual 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. 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 relating to compensation and benefits paid to corporate officers and any other commitments made in their favor, we have verified that such information is consistent with the financial statements, or with the underlying information used to prepare said 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, Thursday, May 18, 2017 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

Decisions falling within the competence of the Ordinary General Meeting

1. Approval of the parent-company financial statements for the fiscal year ended January 31, 2017
2. Approval of the consolidated financial statements for the fiscal year ended January 31, 2017
3. Allocation of net profit for the year
4. Approval of the agreements referred to in Article L. 225-38 of the French Commercial Code
5. Reappointment of Mrs. Cristel de Rouvray
6. Reappointment of Mr. Charles-Helen des Isnards
7. Approval of the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional items that make up the total compensation and benefits of all types attributable to the Chairman and Chief Executive Officer and the Chief Operating Officers
8. Determination of the compensation paid to the members of the Board of Directors (Directors' fees)
9. Authorization to be granted to the Board of Directors for the Company to buy back its own shares

Decisions falling within the competence of the Extraordinary General Meeting

10. Authorization to be granted to the Board of Directors to award stock subscription options
11. Authorization to be granted to the Board of Directors to award stock purchase options
12. Delegation of authority to the Board of Directors for the purpose of increasing the capital via the issue of shares of common stock or of any securities convertible into equity, with maintenance of the shareholders' preferential subscription rights
13. Delegation of authority to the Board of Directors for the purpose of increasing the capital via the issue of shares of common stock or of any securities convertible into equity, through public offerings with cancellation of the shareholders' preferential subscription rights
14. Delegation of authority to the Board of Directors for the purpose of increasing the issue amount in the event of over-demand
15. Delegation of authority to the Board of Directors for the purpose of increasing the capital by the capitalization of premiums, reserves, profits or otherwise
16. Delegation of authority to the Board of Directors for the purpose of issuing shares without preferential subscription rights as compensation for contributions of shares or share equivalents granted to the Company as part of a contribution in kind
17. Delegation of authority to the Board of Directors for the purpose of increasing the capital without preferential subscription rights through private placement
18. Authorization given to the Board of Directors to increase the capital by issuing shares reserved for employees enrolled in the employee savings plan
19. Extension of the age limit for the Chief Executive Officer from 75 to 80 years of age and corresponding amendment to article 14-II, paragraph 4 of the articles of association
20. Amendment to article 16 of the articles of association to comply with the new legal requirements applicable to the scheme of regulated agreements
21. Amendment to article 18, paragraphs 7 to 9 of the articles of association to comply with the new legal requirements ap-plicable to the date and procedures for drawing up the list of persons authorized to attend General Meetings –Record Date
22. Amendment to article 4 of the articles of association to comply with the new provisions of Article L. 225-36 of the French Commercial Code, as amended by French Law No. 2016-1691 of December 9, 2016 ("Sapin II" Law)
23. Amendment to article 13 of the articles of association to comply with the new provisions of Article L. 225-36 of the French Commercial Code, as amended by French Law No. 2016-1691 of December 9, 2016 ("Sapin II" Law)

24. Amendment to article 17 of the articles of association to comply with the new provisions of Article L. 823-1 of the French Commercial Code, as amended by French Law No. 2016-1691 of December 9, 2016 ("Sapin II" Law)

Joint decisions

25. Powers for formalities.

6.1. Decisions falling within the competence of the Ordinary General Meeting

First resolution

Approval of the parent-company financial statements for the fiscal year ended January 31, 2017

Statement of reasons

Based on the review of 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, the General Meeting is requested to approve the parent-company financial statements for the fiscal year ended January 31, 2017, showing a profit of €1,632,373.85.

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 parent-company financial statements for the fiscal year ended January 31, 2017, approves the financial statements and balance sheet, as presented, showing a profit of €1,632,373.85.

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 €204,186.

Second resolution

Approval of the consolidated financial statements for the fiscal year ended January 31, 2017

Statement of reasons

Based on the review of 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, the General Meeting is requested to approve the consolidated financial statements for the fiscal year ended January 31, 2017.

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, 2017, approves these financial statements as presented.

Third resolution

Allocation of net profit for the year

Statement of reasons

The General Meeting is requested to allocate the profit of €1,632,373.85 as follows:

- *€11,075.99 to the legal reserve;*
- *€1,621,297.86 to retained earnings.*

Following this allocation, the balance of the legal reserve will stand at €1,797,597.60.

Following this allocation, retained earnings will stand at €32,548,508.07.

The Board of Directors reminds the General Meeting that no dividends have been paid out for the past three fiscal years.

The General Meeting, acknowledging that the net profit for the year ended January 31, 2017 stands at €1,632,373.85, decides, at the Board of Directors' recommendation, to allocate this profit as follows:

Current position:

- Net profit for the year: €1,632,373.85
- Retained earnings: €30,927,210.21
- Total to be allocated: €1,632,373.85

Allocated as follows:

- €11,075.99 to the legal reserve;
- €1,621,297.86 to retained earnings.

Following this allocation, the balance of the legal reserve will stand at €1,797,597.60.

Following this allocation, retained earnings will stand at €32,548,508.07.

The General Meeting notes that no dividends have been paid out for the past three fiscal years.4082422123

Fourth resolution

Approval of the agreements referred to in Article L. 225-38 of the French Commercial Code

Statement of reasons

Based on the special report by the statutory auditors on regulated agreements, the General Meeting is requested to acknowledge that during FY2016 the two following agreements gave rise to the procedure provided for in Articles L. 225-38 et seq. of the French Commercial Code:

- *the buyback of 8,000 ESI shares from a shareholder who held over 10% of the voting rights under terms set out in the report of the statutory auditors;*
- *the consultancy contract initially signed in 2015 with Ms. Cristel de Rouvray, Director, and extended under the same terms in 2016 following a review by the Board of Directors on April 8, 2016.*

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 Mrs. Cristel de Rouvray

Statement of reasons

As the directorship of Mrs. Cristel de Rouvray expires at the end of this General Meeting, the Shareholders are requested to renew her directorship for a term of four years, until the General Meeting to be convened to approve the financial statements for the year ending January 31, 2021.

The Board of Directors reminds the General Meeting that Ms. Cristel de Rouvray has been a director since 1999. She is currently Chair of the Compensation, Nomination and Governance Committee and a member of the Strategic Committee. Her biography is presented in the Chairman's report.

The General Meeting, having reviewed the Report of the Board of Directors, and noting that the term of office of Ms. Cristel de Rouvray expires at the end of the General Meeting, decides to renew her 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, 2021.

Sixth resolution

Reappointment of Mr. Charles-Helen des Isnards

Statement of reasons

As the directorship of Mr. Charles-Helen des Isnards expires at the end of this General Meeting, the Shareholders are requested to renew his directorship for a term of four years, until the General Meeting to be convened to approve the financial

statements for the year ending January 31, 2021.
The Board of Directors reminds the General Meeting that Mr. Charles-Helen des Isnards has been an independent board member since 2008. He is currently Chair of the Audit Committee and a member of the Strategic Committee and Compensation, Nomination and Governance Committee. Mr. Charles-Helen des Isnards has also been given special assignments in recent years. His biography is presented in the Chairman's report.

The General Meeting, having reviewed the Report of the Board of Directors, and noting that the term of office of Mr. Charles-Helen des Isnards 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, 2021.

Seventh resolution

Approval of the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional items that make up the total compensation and benefits of all types attributable to the Chairman and Chief Executive Officer and the Chief Operating Officers

Statement of reasons
In application of Article L. 225-37-2 of the French Commercial Code, as introduced by the French "Sapin II" Law on Transparency, Anti-Corruption and Modernization of Economic Life, the General Meeting is requested every year as of 2017 to approve the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional items that make up the total compensation and benefits of all types attributable to the corporate executive officers, based on their mandate.
These principles and criteria are presented in the report appended to the Report of the Board of Directors and are included in section 2.5.2 of the Registration Document.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, in application of Article L. 225-37-2 of the French Commercial Code, approves the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional items that make up the total compensation and benefits of all types attributable to the Chairman and Chief Executive Officer and the Chief Operating Officers as set out in the report appended to the report mentioned in Articles L. 225-100 and L. 225-102 of the French Commercial Code, and presented in the Registration Document.

Eighth resolution

Determination of the compensation paid to the members of the Board of Directors (Directors' fees)

Statement of reasons
The General Meeting is requested to set the total annual amount of Directors' fees allocated to members of the Board of Directors for FY2017 at €180,000 to account for changes in the Board of Directors.
It should be noted that in its previous decision, the General Meeting of July 21, 2016 set the total amount at €160,000.

The General Meeting decides to set the compensation paid to the members of the Board of Directors in the form of Directors' fees at €180,000 for FY2017. The Board will freely distribute this amount among its members.

Ninth resolution

Authorization to be granted to the Board of Directors for the Company to buy back its own shares

Statement of reasons

As the existing authorization expires in January 2018, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization for the Company to buy back its own shares for a new period of 18 months as from the General Meeting of June 29, 2017.

Given the rise in the ESI share price, it is proposed to set the maximum purchase price at €80 per share. Pursuant to current legislation, the maximum number of shares that may be vested is limited to 10% of the capital, after deduction of treasury stock held by the Company, 7% at the end of the 2016 fiscal year. The Company will not be allowed to pay out more than €15,000,000 under the share buyback program.

The Company can buy back its own shares to:

- *stimulate the secondary market or the liquidity of ESI Group shares through a liquidity contract signed with an investment service provider;*
- *allocate them to free share awards or stock purchase options;*
- *hold them and use them at a later date as payment for acquisitions;*
- *cancel them by a reduction in share capital.*

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, and having reviewed the Report of the Board of Directors in accordance with Article L. 225-209 of the French Commercial Code:

- Terminates the authorization granted by the seventh resolution of the Ordinary and Extraordinary General Meeting of July 21, 2016, which authorized the Board to trade in its own shares;
- 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 June 29, 2017, in order to:

(i) 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);

(ii) 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 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;

(iii) Retain shares to subsequently use them in exchange or as payment for future business acquisitions;

(iv) Cancel shares by a reduction in share capital.

- Decides that the purchase price per share may not exceed €80.

Shares may be purchased or retained at the discretion of the Board of Directors by any means by trading on or off the market, or 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 €15,000,000 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 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 to record share purchases and sales;

- Make any and all disclosures to the stock market regulators, carry out any other formalities and, in general, take any necessary steps.

6.2. Decisions falling within the competence of the Extraordinary General Meeting

Tenth resolution

Authorization to be granted to the Board of Directors to award stock subscription options

Statement of reasons

As the existing authorization expires in September 2017, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to award stock subscription options to corporate officers and employees of the Company and its affiliates, or certain categories of them, for a new period of 38 months starting with the General Meeting of June 29, 2017.

The number of shares that may be awarded under this authorization must not exceed 3% of the share capital at the date of the General Meeting, i.e. 180,000 options.

The subscription price of shares will be determined at the date on which the options are granted by the Board of Directors. Pursuant to current legislation, 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.

The Board of Directors will determine the identity of the beneficiaries of the share grants and the procedures and conditions under which they are awarded within the limits of this authorization and within legal and regulatory limits.

Options must be exercised no later than eight years after the date on which they are granted; however, the Board of Directors may nonetheless shorten this period 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.

This authorization will entail the Shareholders' express waiver, for the benefit of beneficiaries of the options, of the Shareholders' preferential subscription rights to shares that will be issued as options are exercised.

In accordance with legal requirements, the increase in capital resulting from the exercise of stock 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.

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 of the French Commercial Code, options for the subscription of new Company shares to be issued through the Company's capital increase operations, not to exceed the number of shares representing 3% of the capital as of the date of this Meeting, i.e. 180,000 options.

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 at 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 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 parent-company 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 shorten this period 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' preferential subscription rights to shares that will be issued as options are exercised.

The General Meeting grants full authority to the Board of Directors 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 (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 stock 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.

This authorization cancels, in the amount of the unused portion, the ninth resolution of the Ordinary and Extraordinary General Meeting of July 24, 2014.

Eleventh resolution

Authorization to be granted to the Board of Directors to award stock purchase options

Statement of reasons

The General Meeting is requested to terminate the existing authorization of July 21, 2016 and grant the Board of Directors a new authorization to award stock purchase options to corporate officers and employees of the Company and its affiliates, or certain categories of them, for a new period of 38 months starting with the General Meeting of June 29, 2017.

The number of shares that may be awarded under this authorization must not exceed 5% of the share capital at the date of the General Meeting, i.e. 299,600 shares.

The purchase price of shares will be determined at the date on which the options are granted by the Board of Directors. Pursuant to current legislation, this price shall be no less than 80% of the average share price over the last 20 trading days preceding the date on which the options are granted.

The Board of Directors will determine the identity of the beneficiaries of the share grants and the procedures and conditions under which they are awarded within the limits of this authorization and within legal and regulatory limits.

Options must be exercised no later than eight years after the date on which they are granted; however, the Board of Directors may nonetheless shorten this period 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 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 of the French Commercial Code, options to purchase existing shares bought back by the Company under the conditions provided for by law, not to exceed the number of shares representing 5% of the capital as of the date of this Meeting, i.e. 299,600 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 purchase price of shares will be determined at 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 over 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 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 parent-company 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 was disclosed to the pub-lic, 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 shorten this period for all or part of the beneficiaries.

The Board of Directors may prohibit the immediate resale of the shares purchased; 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 Meeting grants full authority to the Board of Directors 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.

This authorization cancels, in the amount of the unused portion, the eleventh resolution of the Ordinary and Extraordinary General Meeting of July 21, 2016.

Twelfth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the capital via the issue of shares of common stock or of any securities convertible into equity, with maintenance of the shareholders' preferential subscription rights

Statement of reasons

As the existing authorization expires in September 2017, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to increase capital via the issue of shares of common stock or of any securities convertible into equity, with maintenance of the shareholders' preferential subscription rights. This authorization will be granted for a new period of 26 months starting with the General Meeting of June 29, 2017.

Shareholders will have preferential subscription rights, in proportion to the number of their shares, to the securities issued in accordance with this resolution. The Board of Directors will have the option of granting the Shareholders the right to apply for a number of securities in excess of the number of shares for which they can apply as of right, in proportion to their subscription rights and according to their request.

The nominal amount of any immediate or future capital increases may not exceed €20,000,000 or its equivalent in any other currency. All capital increases that may be carried out pursuant to the authorizations granted to the Board of Directors by resolutions 12 to 17 submitted at the General Meeting will be deducted from this limit.

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 report of the statutory auditors, and in accordance with Articles L. 225-129,L. 225-129-1, L. 225-129-2 et seq. and L. 228-92 et seq. of the French Commercial Code:

- Authorizes the Board of Directors to issue, on one or more occasions, common stock of the Company or any other securities, including stand-alone share subscription warrants with or without consideration, carrying immediate or deferred rights to common stock of the Company. The Board of Directors will have full discretionary powers to determine the amount, terms and timing of this issue, which may be carried out in France or abroad and within the framework of this resolution, and may be denominated in euros, foreign currency or any monetary unit determined by reference to a basket of currencies.

  Securities may be subscribed for in cash or by offsetting debt.

  The issue price of each share may not be less than the par value.

  This authorization granted to the Board of Directors is valid for a period of 26 months as from the date of this Meeting.
- Decides that the total nominal amount of immediate or future capital increases that may be carried out may not exceed €20,000,000 or its equivalent in any other currency, plus the amount of any additional shares issued to maintain the rights of holders of securities giving access to shares, in line with legal provisions. All capital increases that may be carried out pursuant to the authorizations granted to the Board of Directors by resolutions 12 to 17 submitted at the General Meeting will be deducted from this limit. Furthermore, the total nominal amount of debt instruments with immediate or deferred access to the capital that may be issued in application of this authorization may not exceed €300,000,000 or its equivalent in any other currency.
- Decides that existing Shareholders will have a preferential right to subscribe for the securities issued pursuant to this authorization, in proportion to their existing holdings;

The Board of Directors will have the option of granting the Shareholders the right to apply for a number of securities in excess of the number of shares for which they can apply as of right, in proportion to their subscription rights and according to their request.

- Decides that if the applications for shares as of right and, if applicable, applications for excess shares, do not cover the entire issue, the Board of Directors may use one or more of the options below in the order it deems fit:
  - Limit the amount of the issue to the subscriptions received, provided that at least 75% of the issue is taken up;
  - Freely distribute all or part of the unsubscribed securities;
  - Float all or part of the unsubscribed securities.
- Notes that, as required, this authorization automatically waives Shareholders' preferential subscription rights to the shares to which these securities entitle them in favor of holders of securities issued in application of this resolution and giving deferred access to Company shares that may be issued.
- Decides that this authorization also covers the authorization granted to the Board of Directors to amend the articles of association as necessary.
- Acknowledges that this authorization cancels and replaces any previous authorizations with the same purpose.

Thirteenth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the capital via the issue of shares of common stock or of any securities convertible into equity, through public offerings with cancellation of the shareholders' preferential subscription rights

Statement of reasons

As the existing authorization expires in September 2017, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to increase capital via the issue of shares of common stock or of any securities convertible into equity, through public offerings with cancellation of the shareholders' preferential subscription rights.

This authorization will be granted for a new period of 26 months starting with the General Meeting of June 29, 2017.

Shareholders' preferential subscription rights to securities to be issued under this authorization will be cancelled. The Board of Directors will have the option of granting Shareholders a priority subscription right to shares as of right and, if applicable, applications for excess shares, for all or part of the issue, for the period and on the terms it will set pursuant to the applicable legislative and regulatory provisions when it decides to exercise this authorization.

The nominal amount of any immediate or future capital increases may not exceed €20,000,000 or its equivalent in any other currency. All capital increases that may be carried out pursuant to the authorizations granted to the Board of Directors by resolutions 12 to 17 submitted at the General Meeting will be deducted from this limit. Furthermore, the total nominal amount of debt instruments with immediate or deferred access to the capital that may be issued in application of this authorization may not exceed €300,000,000 or its equivalent in any other currency.

The issue price may not be less than the weighted average price of shares quoted over the three days prior to the decision, less 5%. For issues of stand-alone share subscription warrants carrying immediate or deferred rights to Company shares, this minimum price applies to the sum of the price of the warrant and the share.

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 report of the statutory auditors, and in accordance with Articles L. 225-129, L. 225-129-1, L. 225-129-2 et seq., L. 225-135, L. 255-136, and L. 228-92 et seq. of the French Commercial Code:

- Authorizes the Board of Directors to issue, through public offerings, on one or more occasions, common stock of the Company and/or share equivalents carrying rights to other equity securities or to debt securities and/or share equivalents carrying rights to equity securities to be issued governed by Articles L. 228-91 et seq. of the French Commercial Code. The Board of Directors will have full discretionary powers to determine the method and terms of this issue, which may be carried out in France or abroad.

Securities may be subscribed for in cash or by offsetting debt, or may result from securities tendered to a

public exchange offer initiated by the Company under Article L. 225-148 of the French Commercial Code.
This authorization granted to the Board of Directors is valid for a period of 26 months from the date of this Meeting.

- Decides that the nominal amount of any immediate or future capital increases may not exceed €20,000,000 or its equivalent in any other currency. All capital increases that may be carried out pursuant to the authorizations granted to the Board of Directors by resolutions 12 to 17 submitted at this General Meeting will be deducted from this limit. Furthermore, the total nominal amount of debt instruments with immediate or deferred access to the capital that may be issued in application of this authorization may not exceed €300,000,000 or its equivalent in any other currency.
- Decides to cancel Shareholders' preferential subscription rights to securities to be issued under this authorization, and give the Board of Directors the option of granting Shareholders a priority subscription right to shares as of right and, if applicable, applications for excess shares, for all or part of the issue, for the period and on the terms it will set pursuant to the applicable legislative and regulatory provisions when it decides to exercise this authorization. This priority subscription right will not be transferable or tradable.
- Decides that the issue price may not be less than the weighted average price of shares quoted over the three days prior to the decision, less 5%. For issues of stand-alone share subscription warrants carrying immediate or deferred rights to Company shares, this minimum price applies to the sum of the price of the warrant and the share.
- Notes that, as required, this authorization automatically waives Shareholders' preferential subscription rights to the shares to which these securities entitle them in favor of holders of securities issued in application of this resolution and giving deferred access to Company shares that may be issued.
- Decides that this authorization also covers the authorization granted to the Board of Directors to amend the articles of association as necessary.
- Acknowledges that this authorization cancels and replaces any previous authorizations with the same purpose.

Fourteenth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the issue amount in the event of over-demand

Statement of reasons

As the existing authorization expires in September 2017, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to increase the issue amount in the event of over-demand for a new period of 26 months.
For each issue carried out in application of the twelfth and thirteenth resolutions above, the Board of Directors will be authorized to increase the number of shares to be issued in accordance with Article L. 225-135-1 of the French Commercial Code in the event of over-demand, and under the following terms: (i) within 30 days of the close of the original issue, (ii) for up to 15% of its amount, (iii) for a maximum of €20,000,000, and (iv) at the same price applied in the original issue.

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 report of the statutory auditors, decides that for each issue carried out in application of the twelfth and thirteenth resolutions above, the Board of Directors is authorized to increase the number of shares to be issued in accordance with Article L. 225-135-1 of the French Commercial Code in the event of over-demand, and within 30 days of the close of the original issue, and for up to 15% of its amount. The subscription price will be the same as that applied in the original issue.
However, this increase may not exceed the overall maximum of €20,000,000 authorized for all capital increases carried out by the Board of Directors pursuant to resolutions 12 to 17 submitted at this General Meeting.
The General Meeting acknowledges that the present authorization cancels and replaces any previous authorizations with the same purpose.

Fifteenth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the capital by the capitalization of premiums, reserves, profits or otherwise

Statement of reasons

As the existing authorization expires in September 2017, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to increase capital by the capitalization of premiums, reserves, profits or otherwise, for a new period of 26 months.

The total amount of capital increases that may be carried out, plus the amount required to maintain the rights of holders of securities giving access to shares, in line with legal provisions, may not exceed the total amount of reserves, premiums and profits existing at the time of the capital increase, or €100,000,000. This limit may be reduced to the amount of capital increases carried out pursuant to resolutions 12 to 17 submitted at this General Meeting.

In application of Article L. 225-130 of the French Commercial Code, the General Meeting, having reviewed the Report of the Board of Directors:

- Authorizes the Board of Directors, for a period of 26 months as from the date of this Meeting, to increase the capital, on one or more occasions, through incorporation of additional paid-in capital, retained earnings, earnings, or other amounts that may be capitalized in accordance with the applicable laws and the Company's articles of association, in the form of free share awards, the increase of the nominal amount of existing shares or a combination of these two methods. The total amount of capital increases that may be carried out, plus the amount required to maintain the rights of holders of securities giving access to shares, in line with legal provisions, may not exceed the total amount of reserves, premiums and profits existing at the time of the capital increase, or €100,000,000. This limit may be reduced to the amount of capital increases carried out pursuant to resolutions 12 to 17 submitted at this General Meeting.
- Decides that, in the event that the Board of Directors exercises this authorization, rights to fractional shares may not be traded or transferred, and that the corresponding securities will be sold. Proceeds from sale will be allocated to rights holders within the time limit set forth in regulations in force.
- Decides that this authorization also covers the authorization granted to the Board of Directors to amend the articles of association as necessary.

The General Meeting acknowledges that the present authorization cancels and replaces any previous authorizations with the same purpose.

Sixteenth resolution

Delegation of authority to the Board of Directors for the purpose of issuing shares without preferential subscription rights as compensation for contributions of shares or share equivalents granted to the Company as part of a contribution in kind

Statement of reasons

As the existing authorization expires in September 2017, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to issue shares without preferential subscription rights as compensation for contributions of shares or share equivalents granted to the Company as part of a contribution in kind. This authorization will be granted for a new period of 26 months.

Within the overall maximum of €20,000,000, the Board of Directors will have the option of issuing shares of common stock in line with the report of the contributions auditor(s), not to exceed 10% of the Company's share capital.

Within the overall maximum of €20,000,000 applicable to capital increases authorized by the resolutions 12 to 17 submitted at this General Meeting and in accordance with Article L. 225-147 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, authorizes the Board of Directors, for a period of 26 months as from the date of this Meeting, to issue shares of common stock in line with the report of the contribution appraiser(s), not to exceed 10% of the Company's share capital, as compensation for contributions in kind granted to the Company in the

form of shares or share equivalents.
The General Meeting acknowledges that this authorization cancels and replaces any previous authorizations with the same purpose. This authorization also covers the authorization granted to the Board of Directors to amend the articles of association as necessary.

Seventeenth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the capital without preferential subscription rights through private placement

Statement of reasons

As the existing authorization expires in September 2017, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new delegation of authority to increase the share capital without preferential subscription rights by private placement, for an additional 26 months.

The total amount of share capital increases that may be carried out pursuant to this delegation is limited to 20% of the share capital per year, up to an overall ceiling of €20,000,000.

The issue price of the shares issued directly will be equal to or greater than the minimum required by the regulatory provisions in force on the day of issue for an issue without preferential subscription rights (to date, the weighted average of the share price over the three trading days preceding the setting of the subscription price of the capital increase less 5%), after correcting of this average in the event of a difference between the dividend dates.

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 report of the statutory auditors, in application of Article L. 225-136 of the French Commercial Code and Article L. 411-2 of the French Monetary and Financial Code:

- Delegates to the Board of Directors, for a period of 26 months from the date of this General Meeting, the authority to carry out, on one or more occasions, a capital increase reserved for qualified investors or a limited circle of investors in accordance with the provisions of Article L. 225-136 of the French Commercial Code and Article L. 411-2 of the French Monetary and Financial Code.
- Decides that the issue price of the shares issued directly will be equal to or greater than the minimum required by the regulatory provisions in force on the day of issue for an issue without preferential subscription rights (to date, the weighted average of the share price over the three trading days preceding the setting of the subscription price of the capital increase less 5%), after correcting of this average in the event of a difference between the dividend dates.
- Decides that the total amount of share capital increases that may be carried out pursuant to this delegation is limited to 20% of the share capital per year, up to an overall ceiling of twenty million euros (€20,000,000).

In all cases, the amount of the capital increases carried out pursuant to this resolution shall be charged against the ceilings provided for in resolutions 12 to 17.

The General Meeting acknowledges that this delegation cancels and replaces any previous authorization having the same purpose.

Eighteenth resolution

Authorization granted to the Board of Directors to increase the capital by issuing shares reserved for employees enrolled in the employee savings plan

Statement of reasons

In accordance with the provisions of Articles L. 3332-1 et seq. of the French Labor Code and Articles L. 225-129-6 and L. 225-138-1 of the French Commercial Code, providing in particular for a permanent obligation to consult the Shareholders regarding capital increases reserved for employees enrolled in the company savings plan, the General Meeting is called upon to terminate the existing authorization and to authorize the Board of Directors to carry out capital increases reserved for employees enrolled in the company savings plan.

This authorization will be granted for a new period of 26 months as of the General Meeting of June 29, 2017.

The ceiling of the nominal amount of the Company's capital increase, resulting from all share issues carried out pursuant to this resolution, is set at 2% of the share capital, this ceiling being autonomous and distinct from the ceilings referred to in other resolutions and established without taking into account the nominal value of the ordinary shares to be issued, if any, in respect of adjustments carried out to preserve the rights of holders of securities conferring entitlement to shares in the Company, in accordance with the law.

The preferential subscription right to which the issue of shares or other securities giving access to the capital provided for in this resolution confers immediate or subsequent entitlement will be canceled for the benefit of employees enrolled in the company savings plan.

The Board of Directors shall be free to determine the terms and conditions of such increases, within the limits of this authorization and within legal and regulatory limits.

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 report of the statutory auditors, in application of Articles L. 3332-1 et seq. of the French Labor Code and Articles L. 225-129-6 and L. 225-138-1 of the French Commercial Code, and acting in accordance with the provisions of said Code:

- Decides that the Board of Directors shall have a maximum period of 26 months to implement a new company savings plan in accordance with the provisions of Articles L. 3332-1 et seq. of the French Labor Code.
- Delegates to the Board of Directors, for a period of 26 months from the date of this General Meeting, all powers to increase the share capital, on one or more occasions, at its sole discretion, by issue of shares or other securities giving access to the Company's capital reserved for members of a company savings plan implemented by the Company and French or foreign companies affiliated thereto, pursuant to Article L. 225-180 of the French Commercial Code and L. 3344-1 and L. 3344-2 of the French Labor Code.

  The ceiling of the nominal amount of the Company's capital increase, resulting from all share issues carried out pursuant to this resolution, is set at 2% of the share capital, this ceiling being autonomous and distinct from the ceilings referred to in other resolutions and established without taking into account the nominal value of the ordinary shares to be issued, if any, in respect of adjustments carried out to preserve the rights of holders of securities conferring entitlement to shares in the Company, in accordance with the law.
- Decides that the issue price of shares issued pursuant to this authorization will be determined by the Board of Directors in accordance with the legal and regulatory provisions applicable to companies whose shares are admitted to trading on a regulated market.
- Decides that the characteristics of the other securities giving access to the capital of the Company will be determined by the Board of Directors under the conditions set out by regulations.
- Decides to cancel the preferential subscription right to shares to which the issue of shares or other securities giving access to the capital as provided for in this resolution confers immediate or subsequent entitlement, for the benefit of the employees enrolled in a company savings plan, and to waive any right to any shares or other securities to be awarded pursuant to this resolution.
- Decides that the Board of Directors shall have full powers to implement this delegation, within the limits and under the conditions specified above, particularly for the following purposes:
- determine the characteristics of the securities to be issued, the amounts proposed for subscription and, in particular, set the issue prices, dates, deadlines, terms and conditions for subscription, release, delivery and enjoyment of securities, in accordance with applicable laws and regulations;
- record the completion of capital increases up to the amount of the shares that will actually be subscribed

or other securities issued pursuant to this authorization;

- if applicable, charge the costs of the capital increases against the amount of the related premiums and deducting from this amount the sums necessary to bring the legal reserve to one-tenth of the new capital after each capital increase;
- conclude all agreements, perform directly or by proxy all transactions and procedures including proceeding with all formalities following capital increases and corresponding amendments to the articles of association and, more generally, do whatever is necessary;
- in general, enter into any agreement, in particular to successfully complete the proposed issues, take all measures and carry out all formalities relevant to the issue, listing and financial servicing of securities issued pursuant to this delegation and the exercise of the rights attached thereto.
- Decides that this authorization shall terminate, as of this date, up to the amount of the unused portion, authorizations previously granted to the Board of Directors to increase the share capital of the Company by issue of shares reserved for members of company savings plans with cancellation of preferential subscription rights in favor of the latter.

Nineteenth resolution

Extension of the age limit for the Chief Executive Officer from 75 to 80 years of age and corresponding amendment to article 14-II, paragraph 4 of the articles of association

Statement of reasons

The General Meeting is called upon to approve the extension of the age limit of the Chief Executive Officer from 75 to 80 years of age and the corresponding amendment to article 14-II, paragraph 4, of the Company's articles of association. For information, it is specified that, according to article 10 of the articles of association, the age limit for the exercise of the functions of member of the Board of Directors and Chairman of the Board is 80 years of age.

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, decides to increase the age limit of the Chief Executive Officer from 75 to 80 years of age.

The General Meeting therefore decides to amend article 14-II, paragraph 4 of the articles of association as follows: “For the performance of his duties, the Chief Executive Officer must be under 80 years of age. When this age limit has been reached during the term of office, the Chief Executive Officer shall be deemed to have resigned and a new Chief Executive Officer shall be appointed.”
The remainder of this article remains unchanged.

Twentieth resolution

Amendment to article 16 of the articles of association to comply with the new legal requirements applicable to the scheme of regulated agreements

Statement of reasons

With respect to the agreements submitted for approval, Article L. 225-38 of the French Commercial Code, as amended by Order No. 2014-863 of July 31, 2014, now provides for an obligation to state the reasons for the decision to authorize said agreements. In addition, the new Article L. 225-40-1 of the French Commercial Code, as introduced by the aforementioned ordinance, provides for an annual review by the Board of Directors of agreements concluded and authorized in previous fiscal years.
As regards current agreements, Article L. 225-39 of the French Commercial Code, as amended by the same ordinance, excluded certain intra-Group agreements from the regulated agreements procedure.
The General Meeting is called upon to approve the amendment of article 16 of the Company's articles of association to bring it into line with these new legal provisions relating to regulated and current agreements.

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, decides to amend article 16 of the articles of association, bringing it in line with the provisions of (i) of Article L. 225-38 of the French Commercial Code, as amended by Ordinance No. 2014-863 of July 31, 2014, which now provides for an obligation to state the reasons for the decision to authorize the agreement; (ii) the new Article L. 225-40-1 of the French Commercial Code as introduced by Ordinance 2014-863 of July 31, 2014, which now provides for an annual review by the Board of Directors of the agreements concluded and authorized in previous years; and (iii) those of Article L. 225-39 of the French Commercial Code, as amended by Ordinance No. 2014-863 of July 31, 2014, which excluded certain intra-Group agreements from the regulated agreements procedure.

The General Meeting therefore decides to:

- Amend article 16, paragraph 5 of the articles of association as follows:
  "These agreements must be authorized and approved in accordance with Article L. 225-40 of the French Commercial Code. Previous authorization by the Board of Directors is motivated by justifying the benefits of the agreement for the Company, particularly by specifying the financial conditions related thereto."
- Add the following text after article 16, paragraph 5 of the articles of association:
  "In addition, agreements concluded and authorized in previous fiscal years, the execution of which has continued during the past fiscal year, are examined each year by the Board of Directors and transmitted to the auditors for the purposes of drawing up the statutory auditors' special report on regulated agreements."
- Amend article 16, paragraph 6 of the articles of association as follows:
  "Agreements relating to current and ordinary transactions, as well as agreements concluded between two companies, one of which holds, directly or indirectly, 100% of the capital of the other, following deduction of the minimum number of shares required to meet the requirements set out in Article 1832 of the French Civil Code or Articles L. 225-1 and L. 226-1 of the French Commercial Code, if applicable, are not subject to the authorization and approval procedure provided for in Articles L. 225-38 et seq. of the French Commercial Code."

The remainder of this article remains unchanged.

Twenty-first resolution

Amendment to article 18, paragraphs 7 to 9 of the articles of association to comply with the new legal requirements applicable to the date and procedures for drawing up the list of persons authorized to attend General Meetings – Record Date

Statement of reasons

Decree No. 2014-1466 of December 8, 2014 amended the date and procedures for drawing up the list of persons authorized to attend a General Meeting as a Shareholder or bondholder of a French listed company. For meetings held from 2015 onwards, the right to attend or be represented at the Meeting is subject to the registration of the securities in the name of the Shareholder or the intermediary registered on behalf of the latter, at least two business days prior to the General Meeting, at 12:00 AM Paris time.

The General Meeting is called upon to approve the amendment of article 18, paragraphs 7-9 of the Company's articles of association to bring them in line with these new legal provisions relating to the "Record Date."

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, decides to amend article 18, paragraphs 7-9 of the articles of association to bring them in line with the provisions of Decree No. 2014-1466 of December 8, 2014 modifying the date and procedures for drawing up the list of persons authorized to attend General Meetings (Record Date).

The General Meeting therefore decides to amend article 18, paragraphs 7-9 of the articles of association as follows:

"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.

The right to attend or be represented at the Meeting is subject to the registration of the securities in the name of the Shareholder or the intermediary registered on behalf of the latter, at least two business days prior to the General Meeting, at 12:00 AM Paris time:

- Either in the registered share account kept by the Company;
- Or in bearer share accounts kept by the authorized intermediary.

A participation certificate must be established by the authorized intermediary on the basis of this registration and attached to the mail-in ballot/proxy form or the access card application submitted in the name of the Shareholder."

The remainder of this article remains unchanged.

Twenty-second resolution

Amendment to article 4 of the articles of association to comply with the new provisions of Article L. 225-36 of the French Commercial Code, as amended by French Law No. 2016-1691 of December 9, 2016 ("Sapin II" Law)

Statement of reasons

Until now, the Board of Directors could decide to transfer the Company's head office within the département or to a neighboring département, subject to ratification of this decision by the next Ordinary General Meeting. Article 142 of the "Sapin II" law extended this possibility, authorizing the transfer of the head office throughout France, subject nonetheless to ratification of the decision by the General Meeting after the fact.

The General Meeting is called upon to approve the amendment of article 4 of the articles of association of the Company to bring it into line with these new legal provisions relating to the authority of the Board of Directors to transfer the head office.

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, decides to bring article 4 of the articles of association in line with the new provisions of Article L 225-36 of the French Commercial Code as amended by law No. 2016-1691 of December 9, 2016, known as the "Sapin II" law.

The General Meeting therefore decides to amend article 4 of the articles of association as follows:

"The head office of the Company is located at 100-102 Avenue de Suffren – 75015 Paris.

It may be transferred to any other location in France by simple decision of the Board of Directors, subject to ratification of this decision by the next Ordinary General Meeting, and to any other location by decision of the Extraordinary General Meeting of Shareholders.

The Board of Directors may create, transfer and eliminate, all institutions, agencies, branches, offices and counters in France and abroad."

Twenty-third resolution

Amendment to article 13 of the articles of association to comply with the new provisions of Article L. 225-36 of the French Commercial Code, as amended by French Law No. 2016-1691 of December 9, 2016 ("Sapin II" Law)

Statement of reasons

Article 142 of the "Sapin II" law amended Articles L. 225-36 and L. 225-65 of the French Commercial Code with a view to extending the powers of the Board of Directors: henceforth, pursuant to a delegation of powers by the Extraordinary General Meeting, the Board may amend the articles of association as necessary to bring them in line with legal and regulatory provisions, subject to ratification of such amendments by the next Extraordinary General Meeting.

The General Meeting is called upon to approve the amendment of article 13 of the Company's articles of association to bring it into line with these new legal provisions relating to the authority of the Board of Directors to amend the articles of association.

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, decides to bring article 13 of the articles of association in line with the new provisions of Article L 225-36 of the French Commercial Code as amended by law No. 2016-1691 of December 9, 2016, known as the "Sapin II" law.

The General Meeting therefore decides to amend article 13 of the articles of association, appending to said article a paragraph to read as follows:

"Pursuant to a delegation of powers by the Extraordinary General Meeting, the Board amends the articles of association as necessary to bring them in line with legal and regulatory provisions, subject to ratification of such amendments by the next Extraordinary General Meeting."

The remainder of this article remains unchanged.

Twenty-fourth resolution

Amendment to article 17 of the articles of association to complywith the new provisions of Article L. 823-1 of the French Commercial Code, as amended by French Law No. 2016-1691 of December 9, 2016 ("Sapin II" Law)

Statement of reasons

Article 140 of the "Sapin II" law, amending Article L. 823-1, paragraph 2 of the French Commercial Code, eliminated the obligation to appoint (an) alternate statutory auditor(s), except in the event that the principle statutory auditor is a nat-ural person or a one-person company.

The General Meeting is called upon to approve the amendment of article 17 of the Company's articles of association to bring it in line with these new legal provisions.

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, decides to bring article 17 of the articles of association in line with the new provisions of Article L 823-1 of the French Commercial Code as amended by law No. 2016-1691 of December 9, 2016, known as the "Sapin II" law.

The General Meeting therefore decides to:

- Amend article 17, paragraph 1 of the articles of association as follows:
  "The Ordinary General Meeting appoints one or more statutory auditors responsible for carrying out the assignments set out by law and complementary regulations."
- Amend the last paragraph of article 17 of the articles of association as follows:
  "In the event that the statutory auditor thus appointed is a natural person or a one-person company, one or more alternate statutory auditors, called upon to replace the principle statutory auditors in the event of refusal, impediment, resignation or death, are appointed under the same conditions."

The remainder of this article remains unchanged.

6.3. Joint decisions:

Twenty-fifth resolution

Powers to carry out formalities

Statement of reasons

This resolution is intended to grant the powers necessary to carry out formalities subsequent to the General Meeting.

The General 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 applicable law.

7 INFORMATION ON THE COMPANY AND SHARE CAPITAL

7.1. Information on the Company

7.1.1. General information

Corporate name and head office
ESI Group
100-102, avenue de Suffren
75015 Paris, France

Legal form
ESI Group is a French limited company (*société anonyme*) with a Board of Directors.

Legislation governing the issuer
French

Date of incorporation and term of the issuer
ESI Group was incorporated on January 28, 1991. The term of the Company is 99 years from registration, unless extended or dissolved before such time.

Company registration
Paris Trade and Companies Registry No. 381 080 225

Corporate purpose (article 2 of the articles of association)
The Company pursues the following corporate purpose in France and in all other countries:

- To research, develop, design, manufacture and distribute computer software. To provide all forms of assistance, training and, in general, all activities that may be directly or indirectly related to the corporate purpose;
- To 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.

Fiscal year (article 22 of the articles of association)
The fiscal year begins on February 1st and ends on January 31 of each year. It covers 12 months.

Exceptional events and disputes
To the best of the Company's knowledge, there is no exceptional event or dispute that may have or has had a material impact on the financial position or profit of the Company or the Group of which it is a part.
With the exception of disputes arising in the ordinary course of business, the Company was not involved in any governmental, judicial or arbitration procedure in FY2016.

7.1.2. Information regarding 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, 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 retained earnings, 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.

General Meetings (Article 18 of the articles of association)

In accordance with Article 18 of the articles of association and legislation in force, decisions are made collectively by Shareholders in General Meetings classified as either Ordinary or Extraordinary General Meetings.

The procedures for convening and holding General Meetings are governed by French law. Meetings are held at the head office or at any other location indicated in the meeting notice.

Ordinary General Meetings are convened to make all decisions that do not require amendments to the articles of association.

They occur 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 categories 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 category in question.

All Shareholders are entitled, 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.

The right to attend or be represented at the General Meeting is subject to shares being recorded for accounting purposes in the name of the Shareholder or the intermediary registered on behalf of the latter, by 12:00 AM Paris time, two working days prior to the General Meeting:

- Either in the registered share account kept by the Company;
- Or in bearer share accounts kept by the authorized intermediary.

A participation certificate must be established by the authorized intermediary on the basis of this registration and attached to the mail-in ballot/proxy form or the access card application submitted in the name of the Shareholder.

In accordance with the conditions set forth above, the legal representatives of Shareholders deemed legally incompetent and individuals representing legal persons that hold shares in the Company may take part in General 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 legislation 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 Board member appointed to replace him or her.

The two Shareholders present at the Meeting who represent the largest number of shares, either on their own behalf or as proxies, are appointed to serve as scrutineers, provided that they accept the responsibility.

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

Quorum and majority (Article 19 of the articles of association)

The Ordinary General Meeting cannot validly conduct business when first convened unless the Shareholders present or represented account for at least one-fifth of shares with voting rights.

When convened a second time, no quorum is required.

The Meeting issues decisions by a majority vote of the shareholders present or represented.

The Extraordinary General Meeting cannot validly conduct business unless the Shareholders present or represented account for at least one-fourth of shares with voting rights when first convened, and one-fifth when convened a second time. If this quorum is not attained, the second General Meeting may be postponed for a maximum of two months from the date at which it was initially convened.

The Extraordinary General Meeting issues decisions by a two-thirds majority vote of the shareholders present or represented.

Special General Meetings cannot validly conduct business unless the Shareholders present or represented account for at least half of shares with voting rights when first convened, and one-fourth when convened a second time. If this quorum is not attained, the second General Meeting may be postponed for a maximum of two months from the date at which it was initially convened, the one-fourth quorum remaining necessary.

Special General Meetings issue decisions by a two-thirds majority vote of the shareholders present or represented.

Shareholders' right to information (Article 21 of the articles of association)

All shareholders are entitled to receive information, and the Board of Directors is required to send or make available any documents necessary for Shareholders to make informed decisions relating to the management and situation of the Company.

Shareholders' right to information, the nature of documents provided and the arrangements for such documents to be made available or transmitted shall adhere to the terms set out by applicable law.

Double voting rights (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, proportionate to the percentage of the share capital the share represents.

Anyone who has 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 above-mentioned 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.

Shareholding thresholds

In accordance with the provisions of Article L. 233-7 of the French Commercial Code, any natural or legal person, acting alone or in concert, that comes to own, directly or indirectly, a number of shares accounting for more than 5%, 10%, 15%, 20%, 25%, 30%, 33.3%, 50%, 66.66%, 90% or 95% of the share capital or voting rights is required to so inform the Company as provided for by law.

In the event of failure to make such a declaration, any person holding 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 duly made.

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

Form and transfer of shares (Article 9 of the articles of association)

<u>Form</u>

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.

<u>Transfer of shares</u>

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.

7.1.3. Information concerning administrative and management bodies

Information on members of administrative and management bodies, as well as their respective authority, is presented in chapter 2, "Corporate Governance."

7.2. Information on the Company's capital

7.2.1. Statutory requirements governing modifications to the capital and rights attached to shares

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 Ordinary 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 preferential subscription rights to shares issued for cash 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.

7.2.2. Issued share capital and authorized unissued share capital

At January 31, 2017, the Company's share capital stood at €17,975,976. It was divided into 5,991,992 shares with a par value of €3 each, all in the same category and fully paid up.

Aside from the stock option plans and free share grants described in section 7.3, there is no other financial instrument that entitles its holder to ownership interest in the Company's share capital.

Table summarizing currently valid delegations granted to the Board of Directors and use of such delegations during the fiscal year

Resolution number	Purpose	Term of the authorization	Expiration date	Maximum	Authorized uses
COMBINED GENERAL MEETING OF JULY 24, 2014					
Resolution 9	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 Combined General Meeting	Options granted at January 31, 2017: **17,350** Options remaining: **162,650**
COMBINED GENERAL MEETING OF WEDNESDAY, JULY 22, 2015					
Resolution 9	Delegation of authority to the Board of Directors for the purpose of increasing the capital via the issue of shares of common stock or of any securities convertible into equity, with preferential subscription rights accorded to shareholders	26 months	September 2017	Securities: €90,000,000 Debt securities: €45,000,000	None
Resolution 10	Delegation of authority to the Board of Directors for the purpose of increasing the capital via the issue of shares of common stock or of any securities convertible into equity, through public offerings and eliminating preferential subscription rights	26 months	September 2017	Securities: €90,000,000 Debt securities: €45,000,000	None
Resolution 11	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 €90,000,000.	None
Resolution 12	Delegation of authority to the Board of Directors for the purpose of increasing the 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 €150,000,000 (a ceiling that might be reduced to the amount of capital increases undertaken pursuant to resolutions 9 to 14)	None
Resolution 13	Delegation of authority to the Board of Directors for the purpose of issuing shares without preemptive subscription rights as compensation for contributions of shares or share equivalents granted to the Company as part of contributions in kind	26 months	September 2017	Total ceiling of €90,000,000 applied to capital increases authorized by resolutions 9 to 12	None
Resolution 14	Delegation of authority to the Board of Directors for the purpose of increasing the capital without preemptive subscription rights through private placement	26 months	September 2017	20% of the share capital per year, not to exceed the overall maximum of €90,000,000	None
Resolution 15	Authorization given to the Board of Directors to increase the 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	None
COMBINED GENERAL MEETING OF THURSDAY, JULY 21, 2016					
Resolution 7	Authorization to be granted to the Board of Directors for the Company to buy back its own shares	18 months	January 2018	Not to exceed 10 % of the Company's share capital	Acquisition of **8,000** shares in December 2016 from a Shareholder with more than 10% of voting rights
Resolution 9	Authorization to the Board of Directors to reduce the share capital by canceling shares purchased by the Company under Article L. 225-209 of the French Commercial Code	26 months	September 2018	Not to exceed 10% of the Company's share capital per 24-month period	None
Resolution 10	Authorization to the Board of Directors to grant free shares to eligible employees and executive corporate officers of the Company and affiliated companies	38 months	September 2019	Not to exceed 60,000 shares representing 1% of the share capital as of the date of the Combined General Meeting	Free shares awarded at January 31, 2017: **27,262** Free shares remaining: **32,738**
Resolution 11	Authorization to the Board of Directors to grant stock purchase options	38 months	September 2019	Not to exceed 5% of the Company's share capital at the date of the Combined General Meeting, i.e. 297,753 shares	None

Non-equity securities

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

7.2.3. History of changes in share capital

Meeting date	Operation type	Change in share capital Issue of cash shares			Resulting total share capital	Total number of shares	Par value *(In euros)*
		Par 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	Capital increase in cash	15.24	(2,274,021)	834	50,827	3,334	15.24
EGM of 7/26/1991	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	Capital increase in cash	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
	And withdrawal from the legal reserve		(4,631)				
EGM of 4/24/1997	Capital increase in cash	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	Capital increase in cash	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	Capital increase in cash	2.44	2,783,502	1,141,161	13,917,505	5,705,803	2.44
BoD meeting of 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
BoD meeting of 5/9/2001	Conversion of the share capital from French francs to 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
BoD meeting of 3/8/2002	Share capital adjustment Exercise of share subscription options	3	7,500	2,500	17,251,881	5,750,627	3
BoD meeting of 3/8/2005	Share capital adjustment Exercise of share subscription options	3	301,500	100,500	17,553,381	5,851,127	3
BoD meeting of 6/7/2007	Share capital adjustment Exercise of share subscription options	3	36,156	12,052	17,589,537	5,863,179	3
BoD meeting of 4/14/2008	Share capital adjustment Exercise of share subscription options	3	21,775	3,350	17,599,587	5,866,529	3
BoD meeting of 2/1/2012	Share capital adjustment Exercise of share subscription options	3	2,051	350	17,600,637	5,866,879	3
BoD meeting of 2/28/2013	Share capital adjustment Exercise of share subscription options	3	24,905	4,250	17,613,387	5,871,129	3
BoD meeting of 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
BoD meeting of 2/7/2014	Share capital adjustment Exercise of share subscription options	3	252,214.4	43,040	17,806,896	5,935,632	3
BoD meeting of 3/10/2015	Share capital adjustment Exercise of share subscription options	3	74,949.4	12,790	17,845,266	5,948,422	3
BoD meeting of 2/18/2016	Share capital adjustment Exercise of share subscription options	3	38,969	6,650	17,865,216	5,955,072	3
BoD meeting of 2/23/2017	Share capital adjustment Exercise of share subscription options	3	280,351	36,920	17,975,976	5,991,992	3

7.2.4. Corporate shareholding structure

Shareholding structure

At January 31, 2017, Mr. Alain de Rouvray, conjointly with the de Rouvray family, held 1,824,385 shares, representing 30.45% of the share capital and 46.35% of voting rights.

To the Company's knowledge, there are no other Shareholders who hold, directly or indirectly, individually or jointly, 5% or more of the Company's share capital or voting rights, with the exception of those named in the table below.

The number of shares held by each member of the Board of Directors, as well as employee shareholding, is presented in the table below.

CHANGE IN THE BREAKDOWN OF THE COMPANY'S SHARE CAPITAL OVER THE PAST THREE FISCAL YEARS

At January 31, 2017 First and last name	Number and shares	% of capital	Number of voting rights that may be exercised	% of voting rights that may be exercised
The de Rouvray family (Ms. Amy de Rouvray, Ms. Cristel Anne de Rouvray, Mr. John Alexandre de Rouvray and Ms. Amy Louise de Rouvray)	1,824,385	30.4%	3,619,425	46.4%
Estate of Jacques Dubois	400,619	6.7 %	797,038	10.2%
SUB-TOTAL OF SHAREHOLDERS' AGREEMENT (REGISTERED SHARES)	2,225,004	37.1%	4,416,463	56.6%
Vincent Chaillou	16,197	0.3%	28,893	0.4%
Charles-Helen des Isnards	3,751	0.1%	6,552	0.1%
Éric d'Hotelans	1,589	0.0%	2,928	0.0%
Véronique Jacq	1	0.0%	1	0.0%
Rajani Ramanathan	1	0.0%	1	0.0%
Yves de Balmann	1	0.0%	1	0.0%
MEMBERS OF THE BOARD OF DIRECTORS (REGISTERED SHARES) (EXCLUDING FOUNDERS)	21,540	0.4%	38,376	0.5%
TOTAL EMPLOYEE SHAREHOLDING (REGISTERED SHARES)	64,288	1.1%	76,091	1.0%
Public shareholding, registered shares	32,565	0.5%	39,547	0.5%
Public shareholding, bearer shares	3,230,594	53.9%	3,230,594	41.4%
SUB-TOTAL PUBLIC SHAREHOLDING	3,263,159	54.5%	3,270,141	41.9%
TREASURY SHARES	418,001	7.0%	0	0.0%
TOTAL	**5,991,992**	**100.0%**	**7,801,071**	**100.0%**

Total number of theoretical voting rights: 8,219,072

At January 31, 2016 First and last name	Number and shares	% of capital	Number of voting rights that may be exercised	% of voting rights that may be exercised
The de Rouvray family	1,824,385	30.6 %	3,554,425	46.2 %
Estate of Jacques Dubois	410,419	6.9%	806,838	10.5%
SUB-TOTAL OF SHAREHOLDERS' AGREEMENT (REGISTERED SHARES)	2,234,804	37.5%	4,361,263	56.7%
Vincent Chaillou	13,597	0.2%	26,293	0.3%
Charles-Helen des Isnards	3,751	0.1%	6,252	0.1%
Éric d'Hotelans	1,589	0.0%	2,215	0.0%
MEMBERS OF THE BOARD OF DIRECTORS (REGISTERED SHARES) (EXCLUDING FOUNDERS)	18,937	0.3%	34,760	0.5%
TOTAL EMPLOYEE SHAREHOLDING (REGISTERED SHARES)	52,814	0.9%	64,643	0.8%
Public shareholding, registered shares	88,149	1.5%	94,486	1.2%
Public shareholding, bearer shares	3,131,215	52.6%	3,131,215	40.7%
SUB-TOTAL PUBLIC SHAREHOLDING	3,219,364	54.1%	3,225,701	42.0%
TREASURY SHARES	429,153	7.2%	0	0.0%
TOTAL	**5,955,072**	**100.0%**	**7,686,367**	**100.0%**

Total number of theoretical voting rights: 8,115,520

At January 31, 2015 First and last name	Number and shares	% of capital	Number of voting rights that may be exercised	% of voting rights that may be exercised
The de Rouvray family	1,814,522	30.5%	3,539,099	46.1%
Jacques Dubois	396,419	6.7%	792,838	10.3%
SUB-TOTAL OF SHAREHOLDERS' AGREEMENT (REGISTERED SHARES)	2,210,941	37.2%	4,331,937	56.4%
Vincent Chaillou	13,597	0.2%	26,293	0.3%
Charles-Helen des Isnards	3,401	0.1%	5,402	0.1%
Éric d'Hotelans	1,589	0.0%	2,215	0.0%
Francis Bernard	2,321	0.0%	3,592	0.0%
Michel de la Serre	1,615	0.0%	1,845	0.0%
MEMBERS OF THE BOARD OF DIRECTORS (REGISTERED SHARES) (EXCLUDING FOUNDERS)	22,523	0.4%	39,347	0.5%
TOTAL EMPLOYEE SHAREHOLDING (REGISTERED SHARES)	46,642	0.8%	58,571	0.8%
Public shareholding, registered shares	86,589	1.5%	92,995	1.2%
Public shareholding, bearer shares	3,160,874	53.1%	3,160,874	41.1%
SUB-TOTAL PUBLIC SHAREHOLDING	3,247,463	54.6%	3,253,869	42.3%
TREASURY SHARES	420,853	7.1%	0	0.0%
TOTAL	**5,948,422**	**100.0%**	**7,683,724**	**100.0%**

Total number of theoretical voting rights: 8,104,577

Shareholders' agreement and other 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 a right of first refusal.

This right of first refusal does 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 may hold at some point in the future, each party is irrevocably bound to either:

- Exercise its right of first refusal and purchase the shares under the conditions set forth under the agreement, or
- 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 "Dutreil" law in France, an agreement was also signed on December 22, 2003, and renewed on December 31, 2011 for a term of five years and six months, renewable indefinitely, between Mr. Alain de Rouvray (Chairman and founder of the Company), Ms. Amy de Rouvray, Ms. Cristel Anne de Rouvray, Mr. John Alexandre de Rouvray and Ms. Amy Louise de Rouvray in their capacity as shareholders of the Company. At January 31, 2017, this agreement represented 30.4% of the Company's capital and 46.4% of voting rights, and collectively binds its signatories to retain half of their shares.

7.2.5. Company share buybacks

The description of the share buyback program implemented by the Company can be consulted on the website.
A liquidity contract was concluded with CIC in 2009 and remains in force. The monthly report on the liquidity contract is also available on the website.

During FY2016, the Company repurchased 8,000 of its own shares.

Date of authorization by the General Meeting	Resolution 7 of July 21, 2016
Date of expiration of the authorization	January 21, 2018
Ceiling on authorized buybacks	10% of share capital at the transaction date
Minimum purchase price per share	€60
Authorized purposes	Cancellation Share purchase options Free share grants Liquidity and market-making External growth
Board of Directors' meeting at which buybacks were decided	November 30, 2016
Buyback period	December 20, 2016
Number of shares repurchased	8,000
Purchase price per share	€39.29
Use of repurchased shares	Share purchase options Free share grants
Number of treasury shares at January 31, 2017	418,001
Percentage of capital held by the Company at January 31, 2017	7%

7.3. Presentation of stock option and free share grant plans

7.3.1. Stock option plans

Grant of stock subscription options

At its March 11, 2016 meeting, the Board of Directors, acting on the proposal of the Compensation, Nomination and Governance Committee, allocated 10,000 shares to a manager. This allocation was governed by plan No. 17bis. Vesting will take place in five equal annual tranches as of March 1, 2017, followed by March 1, 2018-2021, and will be subject to continued employment of the beneficiary. The maximum potential capital increase will be in a total par amount of €30,000, corresponding to 10,000 new shares with a par value of €3 each.

Exercise of stock subscription options

The Board of Directors noted that the number of new shares issued following exercise of stock options during FY2016 came to 36,920 shares with a par value of €3, representing a capital increase in an amount of €110,760, thereby bringing the capital from €17,865,216 to €17,975,976.

Allocation of stock purchase options

No stock purchase options were allocated during FY2016.

Table summarizing the stock option plans available to employees and corporate officers

Stock option plan for the subscription and purchase of new shares	Stock options available to be awarded(1) at January 31, 2017	As a % of share capital	Existing stock options(2) at January 31, 2017	Exercise price *(In €)*	As a % of share capital	Stock options exercised at January 31, 2017	As a % of share capital
No. 9 (GM of June 29, 2006)	0	0%	0	8.86	0%	85,900	1.43%
No. 10 (GM of June 26, 2012)	0	0%	111,175	25.95	1.86%	5,000	0.08%
No. 15 (GM of July 23, 2013)	0	0%	20,000	21.66	0.33%	0	
No. 17 (GM of Thursday, July 24, 2014)	162,650	2.71%	17,350	24.97	0.29%	0	
No. 18 (GM of July 21, 2016)	297,753	5%	0	-	-	0	
TOTAL	**460,403**	**7.71%**	**148,525**	**-**	**2.48%**	**90,900**	**1.51%**

(1) "Stock options available to be allocated" represent the difference between the total number of stock options authorized by the General Meeting and the number of stock options already granted by the Board of Directors at January 31, 2017.
(2) The options forfeited or canceled following an employee's departure were removed from "Existing options" at January 31, 2017.

History of allocations of stock subscription or purchase options (Table 8 of AMF recommendations)

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	7/10/2008	7/10/2008	2012 to 2015	3/26/2015	7/22/2015 3/11/2016
Number of options granted	100,000	200,000	180,000	20,000	17,350
O/w:					
• 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	7/10/2013	7/10/2013	2017 to 2019	2/1/2019	2017 to 2019
Expiration date	7/8/2016	7/8/2016	2020 to 2025	2/1/2025	2023 to 2026
Subscription or purchase price *(in euros)*	8.86	8.86	25.94	21.66	24.97
Total number of options exercised	13,100	85,900	5,000	0	0
Total number of shares eligible to be subscribed or purchased, expired or canceled	86,900	114,100	63,825	0	0
Existing stock options at the balance sheet date	0	0	111,175	20,000	17,350

Stock options granted to the top ten employee grantees, not including corporate officers (Table 9 of AMF recommendations)

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 during the fiscal year, by the issuer and any other companies within the issuer's group entitled to grant options, to the top ten employees of the issuer and any aforementioned company having granted the highest number of options	10,000	23.35	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	24,450	11.48	9 & 10

7.3.2. Free share grant plans

At its July 21, 2016 meeting, the Board of Directors, acting on the proposal of the Compensation, Nomination and Governance Committee, granted a maximum total number of 25,000 ordinary shares in the Company, with a par value of €3 each, to eight beneficiaries.

At its December 23, 2016 meeting, the Board of Directors, acting on the proposal of the Compensation, Nomination and Governance Committee, granted a maximum total number of 2,262 ordinary shares in the Company, with a par value of €3 each, to all employees and corporate officers of the Group's French companies present at that date, i.e. ESI Group, ESI France and CIVITEC.

The table below lists the free share grant plans for employees with and without the status of corporate officer

Free share award plans	Free shares available to be awarded[1] at January 31, 2017	As a % of share capital	Existing free shares[2] at January 31, 2017	As a [2]% of share capital
Authorization of the GM of July 21, 2016	32,738	0.55%	27,208	0.45%
TOTAL	**32,738**	**0.55%**	**27,208**	**0.45%**

(1) "Free shares available to be allocated" represent the difference between the total number of free shares authorized by the General Meeting and the number of shares already granted by the Board of Directors at January 31, 2017.

(2) The forfeited free shares were removed from "Existing free shares" at Tuesday, January 31, 2017.

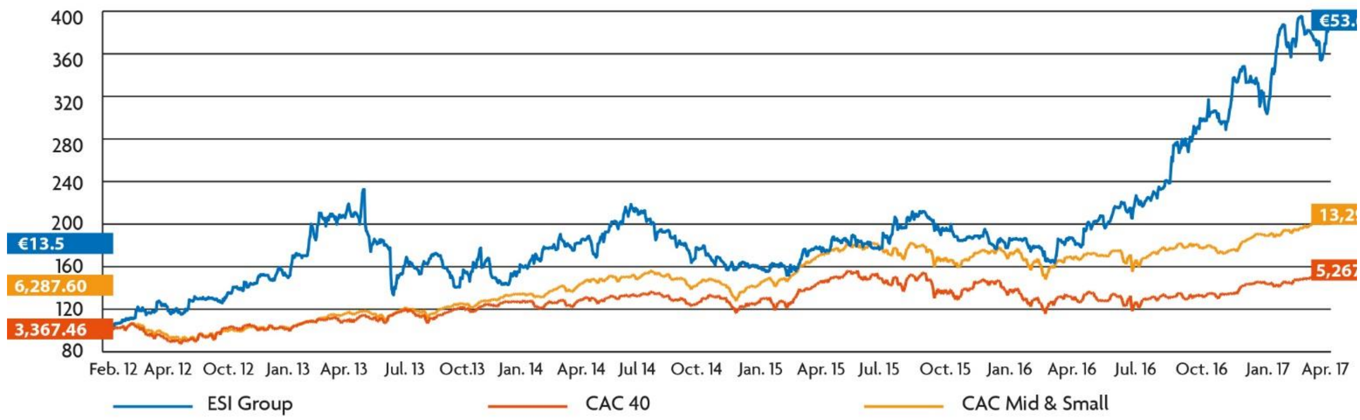
History of allocations of free shares (Table 10 of AMF recommendations)

Meeting date	Plan 14: 6/26/2012	Plan 6: 7/21/2016	Plan 7: 7/21/2016
Date(s) of the meeting(s) of the Board of Directors	12/19/2012	7/21/2016	12/23/2016
Number of granted shares	21,755	25,000	2,262
O/w:			
• Vincent Chaillou	3,600	5,000	0
• Christopher St John	3,100	5,000	0
Date of delivery	12/20/2016	As of 7/21/2018	12/23/2018
Date of availability	12/20/2016	7/21/2020	12/23/2020
Total number of shares delivered	19,145	0	0
Total number of expired or canceled shares	2,610	0	54
Existing shares at the balance sheet date	0	25,000	2,208

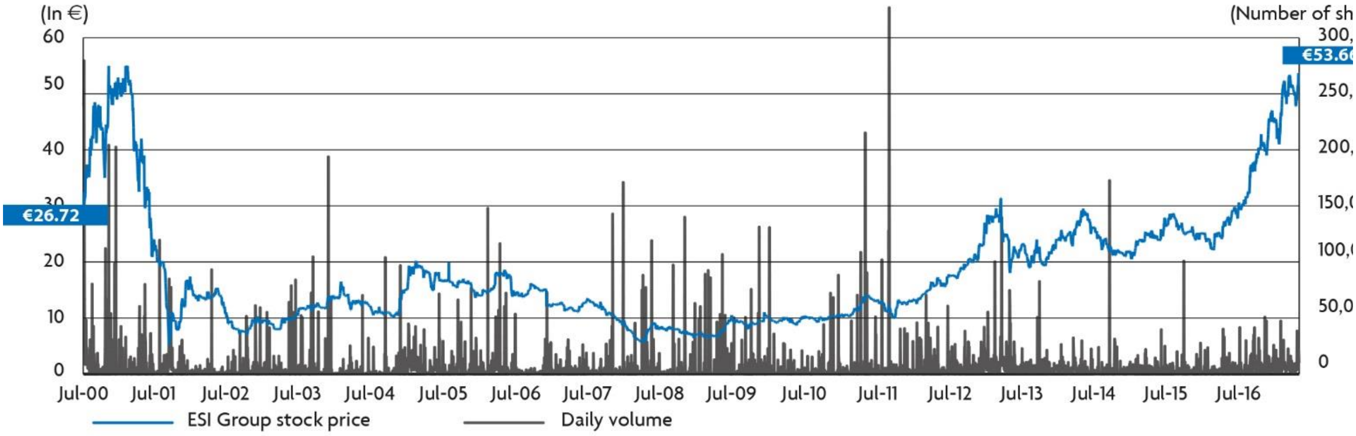
7.4. ESI shares – market

7.4.1. Share price trends

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 February 1st, 2012 until the end of April 2017:



The chart below shows how ESI Group's stock price has performed since its initial public offering on July 6, 2000 until the end of April 2017 and the daily volume of transactions:



7.4.2. Survey of identifiable bearer shares

On April 24, 2017, the Group carried out a survey of identifiable bearer shares (TPI: *Titres au Porteur Identifiable*) on 99 % of its free float (excluding treasury shares) which could be compared to the one realized on April 15, 2016.

	At April 24, 2017		At April 15, 2016	
	As % of free float	As a % of share capital	As % of free float	As a % of share capital
French institutional investors	48%	26%	70%	37%
Foreign investors	42%	23%	18%	10%
Individual Shareholders	8%	4%	10%	5%
Companies	0%	0%	0%	0%

This analysis points to a strong increase in foreign shareholders, which currently account for 23% of share capital, compared to 10% last year.

8 ADDITIONAL INFORMATION

8.1. Persons responsible for the Registration Document

8.1.1. Person responsible for the content of the Registration Document

Paris, May 19, 2017.

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."

8.1.2. Person responsible for the financial information

Mr. Laurent Bastian, Chief Financial Officer of ESI Group.

8.2. Statutory auditors

Statutory auditors

PricewaterhouseCoopers Audit
63, rue de Villiers
92200 Neuilly-sur-Seine France
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.

Mr. Yves Nicolas
63, rue de Villiers
92200 Neuilly-sur-Seine France
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.

8.3. Documents available to the public

All 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, and on its 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 registration documents, financial reports, annual and interim consolidated financial statements, press releases, regulated information, the articles of association, Shareholder letters and guides and stock prices.

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 the Group 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

Registration Document cross-reference table

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 parent-company financial statements, consolidated financial statements, and the report of the statutory auditors for the fiscal year ended January 31, 2016, which appear on pages 69–112 of the Registration Document filed with the French Financial Markets Authority (AMF) on May 20, 2016 under number D.16-0512;
- The parent-company 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;

CROSS-REFRENCE TABLE

Information		Chapters
9.1.	Financial position of the issuer	4.1.
9.2.	Operating income	4.1.
	9.2.1. Major factors	4.1.
	9.2.2. Reasons for major changes in net revenues or income	4.1.
	9.2.3. Governmental, economic, fiscal, monetary or political strategies or factors that have materially affected, or could materially affect, the issuer's operations either directly or indirectly	1.6.
10.	**Cash flows and capital**	
10.1.	Information on the issuer's capital	5.1.5.
10.2.	Source and amount of the issuer's cash flows and descriptions of these cash flows	5.1.4. & 4.1.2.
10.3.	Information on the borrowing requirements and financing structure of the issuer	4.1.2.4. and 5.1.5. note 7.1.
10.4.	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect, the issuer's operations	4.1.2.4. and 5.1.5. notes 7.1. and 7.4.
10.5.	Information concerning anticipated sources of funds	4.1.2.4. and 5.1.5. note 7.1.
11.	**Research and development, patents and licenses**	**4.1.3.**
12.	**Information on business trends**	**4.2.2**
13.	**Profit forecasts or estimates**	**N/A**
14.	**Administrative, management and supervisory bodies and executive management**	**2.**
14.1.	Administrative bodies	2.4.
14.2.	Conflicts of interest within administrative, management and supervisory bodies	2.2.
15.	**Compensation and benefits**	**2.5.**
15.1.	Compensation paid to corporate officers	2.5. and 5.1.5. note 5.
15.2.	Total amounts set aside or accrued to provide pension, retirement or similar benefits	2.5
16.	**Practices and procedures of the administrative and management bodies**	**2.2.**
16.1.	End date of current terms of office	2.3
16.2.	Information on service agreements	1.6.2.
16.3.	Information on the issuer's Committees	2.4.
16.4.	Declaration of compliance with the corporate governance standards	2.1.
17.	**Headcount**	**3.2.**
17.1.	Number of employees	3.2.1.
17.2.	Profit-sharing and stock options	7.3.
17.3.	Description of any employee profit-sharing agreements involving the issuer's capital	3.2.4.
18.	**Key Shareholders**	**7.2.4.**
18.1.	Key Shareholders	7.2.4.
18.2.	Different voting rights	7.1.2.
18.3.	Control of the Company	7.2.4.
18.4.	Description of any agreements, known to the Company, the performance of which may result in a change in control of the Company at a later date	7.2.4.
19.	**Related party transactions**	**N/A**
20.	**Financial information concerning the issuer's assets and liabilities, financial position and performance**	**5.**
20.1.	Historical financial information	5.1. & 5.2.
20.2.	Pro-forma financial information	N/A
20.3.	Financial statements	5.1. & 5.2.
20.4.	Auditing of historical annual financial information	5.1.6. & 5.2.4.
20.5.	Date of latest financial information	N/A
20.6.	Interim and other financial information	N/A
20.7.	Dividend payout policy	N/A
20.8.	Legal and arbitration proceedings	1.6.4. & 7.1.1.
20.9.	Material changes in the financial or trading position	4.1.1. & 5.1.5. note 2.
21.	**Additional information**	**8.**
21.1.	Legal capital	7.2.
21.2.	Instrument of incorporation and articles of association	7.1. & 7.2.
22.	**Key contracts**	**4.1.1.**
23.	**Information provided by third parties, statements made by experts and declarations of interests**	**N/A**

Information		Chapters
24.	**Documents available to the public**	**8.3.**
25.	**Information on equity interests**	**5.2.3. notes C and F9.**

Annual financial report cross-reference table

For ease of reference, the following cross-reference table facilitates identification of information making up the Annual financial report, the publication of which is required under Article L. 451-1-2 of the French Financial and Monetary Code and Article 222-3 of French Financial Markets Authority (AMF) General Regulations.

Information	Chapter
Statement by the person responsible for the registration document	8.1.
• Annual financial statements	5.2.
• Consolidated financial statements	5.1.
• Statutory Auditors' report on the annual financial statements	5.2.4.
• Statutory Auditors' report on the consolidated financial statements	5.1.6.
• Management report	See cross-reference table below
Article L. 225-100 of the French Commercial Code	
– Analysis of business development	
– Analysis of performance	
– Analysis of the financial position	
– Key contingencies and uncertainties	
– Table summarizing currently valid delegations granted to the Management Board by the General Meeting of Shareholders regarding capital increases	
Article L. 225-100-3 of the French Commercial Code	
– Factors that may have an impact in the event of a public offering	
Article L. 225-211 of the French Commercial Code	
– Company share buybacks	
• Statutory Auditors' special report on regulated agreements	4.3.3.
• Fees paid to statutory auditors	5.1.5 note 12.
• Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management	2.
• Statutory Auditors' report on the report of the Board of Directors	2.7.

Management report cross-reference table

For ease of reference, the following cross-reference table facilitates identification of information required in the Management report pursuant to Articles L. 225-100 et seq., L. 232-1 et seq. and R. 225-102 et seq. of the French Commercial Code.

Information	Chapter
Group position and business	
• Objective and exhaustive analysis of development of the Group's business, performance and financial position	4.1.1. & 4.1.2.
• Key events between the closing date and the date of the Management report	4.2.1.
• Description of main risks and uncertainties and indication regarding the use of financial instruments by the Group	1.6.
• Foreseeable development of the Group's situation and future outlook	4.2.
• Research and Development activity	4.1.3.
Corporate governance/corporate officers	
• List of all offices and positions held in any company by each corporate officer during the fiscal year	2.3.
• Compensation and benefits of any kind paid by the Group to each corporate officer during the fiscal year	2.5.
• Report on the principles and criteria for determining, distributing and attributing fixed, variable and exceptional components comprising total compensation and benefits of any kind payable to executive corporate officers	2.5.
• Agreements entered into between a manager of key shareholder and a subsidiary	N.A.
• Allocation and retention of stock options by corporate officers	2.5.2. & 7.3.
• Allocation and retention of free shares by executive corporate officers	2.5.2. & 7.3.
Shareholding and share capital	
• Structure and development of the Group's share capital	7.2.
• Status of employee share ownership	7.2.4.
• Acquisition and disposal of own shares by the Group	7.2.5.
• Information that may have an impact in the event of a public offering	4.4.
Environmental, social and societal information	
• Environmental information	3.4.
• Social information	3.2.
• Societal information	3.3. & 3.5.
Other information	
• Information regarding supplier payment terms	4.1.4.
• Table summarizing currently valid delegations granted by the General Meeting	7.2.2.
• Table showing the Group's results over each of the past five fiscal years	4.5.
• Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management	2.

Sustainable Development and Corporate Social Responsibility cross-reference table

For ease of reference, the following cross-reference table facilitates identification of environmental, social and societal information making up the Report on Sustainable Development and Corporate Social Responsibility, provided in accordance with Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code.

SOCIAL INFORMATION	
Employment	
• Total workforce and breakdown by gender, age and geographic area	3.2.1.
• Recruitments and dismissals	3.2.4.
• Compensation and changes in compensation over time	3.2.4.
Work organization	
• Work schedules	3.2.4.
• Absenteeism	3.2.4.
Labor relations	
• Organization of employer-employee dialogue	3.2.3.
• Summary of collective agreements	3.2.3.
Health and safety	
• Workplace health & safety conditions	3.2.4.
• Summary of agreements signed with trade unions or employee representatives regarding workplace health and safety	3.2.4.
• Workplace accidents, in particular frequency and severity, as well as occupational illnesses	3.2.4.
Training	
• Training policies implemented	3.2.2.
• Total number of training hours	3.2.2.
Equal treatment	
• Steps taken in support of gender equality	3.2.3.
• Steps taken in support of employment and inclusion of people with disabilities	3.2.3.
• Anti-discrimination policy	3.2.3.
Promotion and observance of the fundamental conventions of the International Labor Organization	
• Observance of freedom of assembly and the right to collective bargaining	3.2.3.
• Elimination of discrimination in employment and occupation	3.2.3.
• Elimination of forced or mandatory labor	3.5.2.
• Effective elimination of child labor	3.5.2.
SOCIETAL INFORMATION	
Territorial, economic and social impact of the Company's activity	
• In terms of employment and regional development	3.5.1.
• On neighboring or local communities	3.5.1.
Relations with persons or organizations with an interest in the activity of the Company, including NGOs, educational institutions and local communities	
• Terms of dialog with such persons or organizations	3.5.1.
Subcontracting and suppliers	
• Consideration of social issues in the purchasing policy	3.3.2.
• Consideration of environmental issues in the purchasing policy	3.3.2.
• Amount of subcontracting and consideration of the social and environmental responsibility of suppliers and subcontractors in relationships with them	3.3.2.
Fair trade practices	
• Actions taken to prevent corruption	3.3.2.
• Measures promoting the health and safety of consumers	3.3.2.
ENVIRONMENTAL INFORMATION	
Overall environmental policy	
• Organization of the Company for the consideration of environmental issues and environmental evaluation or certification processes, where applicable	3.4.1.
• Employee training and information on environmental protection	3.4.1.

CROSS-REFRENCE TABLE

• Resources devoted to preventing environmental risks and pollution	3.4.1. & 3.4.2.
• Amount of provisions and guarantees for environmental risks	3.4.1.
Pollution	
• Prevention, reduction or remediation of discharges with serious environmental impact on the air, water or soil	3.4.3.
• Consideration of noise and any other form of pollution specific to an activity	3.4.3.2.
Circular economy	
• Waste prevention and management:	
prevention, recycling, reuse and other waste recovery and elimination measures	3.4.3.2.
measures to fight food waste;	3.4.3.1.
• Sustainable use of resources:	
water consumption and supply in relation to local constraints;	3.4.3.1.
consumption of raw materials and measures to enhance efficiency;	3.4.3.1.
energy consumption, measures to improve energy efficiency and use of renewable energies;	3.4.3.1.
land use	3.4.3.1.
Climate change	
• Significant factors of greenhouse gas emissions caused by the Company's activity, particularly through use of the goods and services produced by the Company;	3.4.3.3.
• Adapting to the impact of climate change	Not relevant
Protecting biodiversity	
• Measures to preserve or enhance biodiversity	Not relevant

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