get it right®

2017 REGISTRATION DOCUMENT

including the annual financial report

PIONEER AND LEADER IN VIRTUAL PROTOTYPING

ESI Group

French limited company with a share capital of €18,049,326
Registered office: 100/102, avenue de Suffren, 75015 Paris
Paris Trade and Company Register (RCS) number: 381 080 225

REGISTRATION DOCUMENT ANNUAL FINANCIAL REPORT

Fiscal year 2017 (ended January 31, 2018)

AMF AUTORITÉ DES MARCHÉS FINANCIERS

This Registration Document was filed with the French Financial Markets Authority (AMF) on May 24, 2018 in accordance with Article 212-13 of the AMF's General Regulations. It may not be used in connection with any financial transaction unless it is accompanied by a memorandum approved by the AMF. The issuer prepared this document and the signatories are responsible for the information herein.

French and English 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).

ESI GROUP IN A NUTSHELL

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

OUR VISION

Be the leader in providing Product Performance Lifecycle™ solutions towards Industry 4.0

OUR MISSION

Boost innovation and improve industrial product development, manufacturing and performance thanks to the Virtual Prototyping and the Hybrid Twin™

AN INNOVATIVE AND MULTISECTORIAL OFFER

INDUSTRIAL DIVERSIFICATION *(% of booking orders)*

GROUND TRANSPORTATION	58.1%
HEAVY INDUSTRY	12.0%
AERONAUTICS & AEROSPACE	10.6%
ENERGY	6.4%
GOVERNMENT, DEFENSE & MARINE	3.8%
ELECTRONICS & CONSUMER GOODS	3.4%
OTHERS	5.7%

2017, A YEAR OF TRANSFORMATION

"The operational performance over the year is significantly impacted by the transformative actions implemented to successfully deploy the new value proposition of the Group that addresses the emerging needs of our clients. This proposition is tied to the Outcome Economy and the Industry of the Future, drivers of unprecedented and accelerated changes in the economic and competitive context for manufacturing industries."

Alain de Rouvray, Chairman and CEO of ESI Group

KEY FIGURES

REVENUES
(in €m)

€135.3m

PER ACTIVITY

78%
Licenses

22%
Services

PER GEOGRAPHICAL AREA

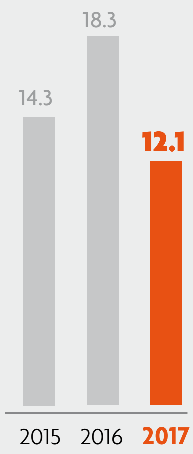
Europe, Middle East and Africa

Asia-Pacific

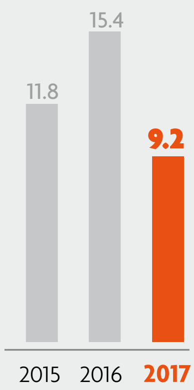
Americas

Expertise based on 40 years of R&D
33.0%
R&D Investments/ Licenses revenues

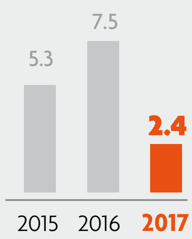
EBITDA
(in €m)



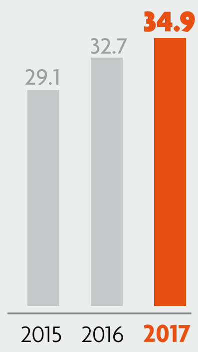
CURRENT OPERATING PROFIT *(in €m)*



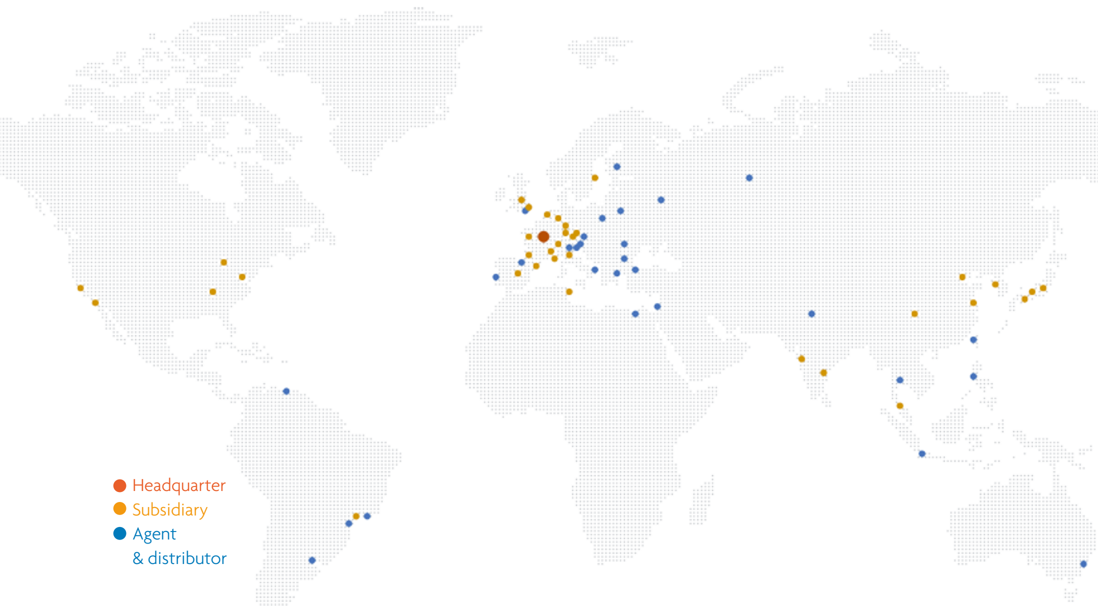
ATTRIBUTABLE NET PROFIT *(in €m)*



R&D INVESTMENTS EVOLUTION *(in €m)*



A GLOBAL COMPANY



COVERING MORE THAN
40 COUNTRIES

A unique expertise of
+1,200
EMPLOYEES
mainly
engineers & scientist, many
with advanced degrees

AMERICAS	EMEA	ASIA
4 R&D centers 2 distribution subsidiaries 4 distributors & agents	12 R&D centers 5 distribution subsidiaries 20 distributors & agents	3 R&D centers 7 distribution subsidiaries 6 distributors & agents

A RESPONSIBLE COMPANY

Gaïa-Index
n° 1
in 2016
and 2017

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

INTEGRATED IN GAÏA INDEX
which distinguishes
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

CIVIL SOCIETY

Serve civil society

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

ENVIRONMENT

Being an environmentally friendly player

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

esi get it right®

A **WELL-BALANCED** CORPORATE GOVERNANCE

A Board of Directors made up of **8 MEMBERS** of which:
5 ARE INDEPENDENT MEMBERS and **3 ARE WOMEN**

Independent members
Non independent members

4 SPECIALIZED COMMITTEES

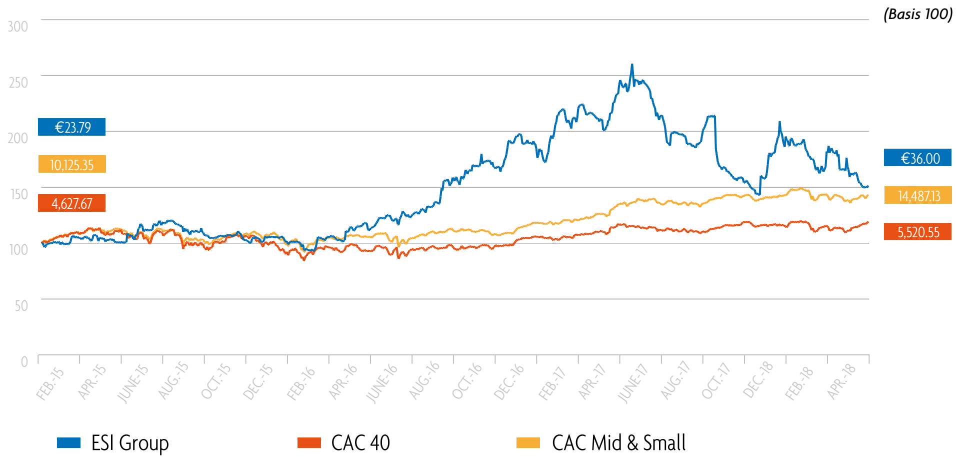
1. Strategic Committee
2. Audit Committee
3. Compensation, Nomination and Governance Committee
4. Technology and Marketing Committee

STOCK MARKET INFORMATION *(as of end of April 2018)*

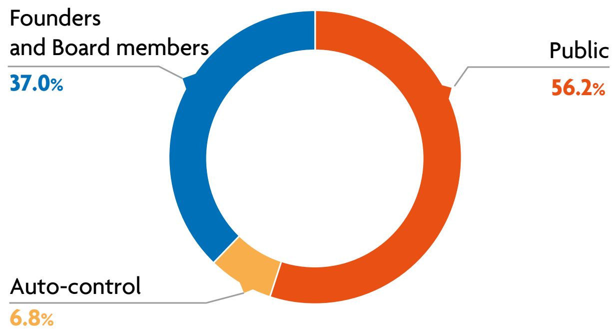
€ 36.0
STOCK PRICE

€ 214 m
MARKET CAPITALIZATION

SHARE PRICE EVOLUTION
between February 2015 and April 2018 (Basis 100)



SHARE CAPITAL BREAKDOWN
as of end of April 2018



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 has developed a unique proficiency in helping industrial manufacturers replace physical prototypes by virtual prototypes, allowing them to virtually manufacture, assemble, test and pre-certify their future products. Coupled with the latest technologies, Virtual Prototyping is now anchored in the wider concept of the Product Performance Lifecycle™, which addresses the operational performance of a product during its entire lifecycle, from launch to disposal. The creation of Hybrid Twin™, leveraging simulation, physics and data analysis, enables manufacturers and operators to deliver smarter and connected products, to predict product performance and to anticipate maintenance needs.

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, 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. It enables the gradual elimination of physical components and subassembly prototypes during the product development phase by letting manufacturers make decisions based on a "live" virtual prototype. Innovative visualization technologies such as IC.IDO and the availability of the Virtual Prototyping chain in Cloud/SaaS mode considerably enhance the collaborative potential of ESI Group solutions while drastically reducing acquisition and ownership costs for companies.

Since January 2016 and the acquisition of ITI GmbH, 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 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 smart factories and smart digital products.

The Group has two main activities: the edition (development) and distribution of software, and consulting services related to its software products.

1.1.1.1. Software Editor/Distributor (Licensing activity)

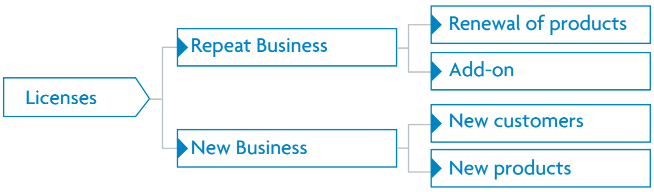
Licenses Edition/Distribution is the Group's main activity, accounting for 78% of revenue in 2017. Software is marketed in the form of proprietary user licenses based for the most part on an annual leasing system that, by nature, generates highly recurring revenue.

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. In 2017, distribution subsidiaries directly managed 92% 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 Licensing activity may be broken down in two ways:

- By contract type:
  - Rental license – user license contract renewable annually and including maintenance services – this type of contract is predominant;
  - Paid-up license – long term license contract (paid-up licenses for the duration of legal protection) including maintenance services for renewable one-year periods (also named Perpetual);
  - 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:
  - "Repeat 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.

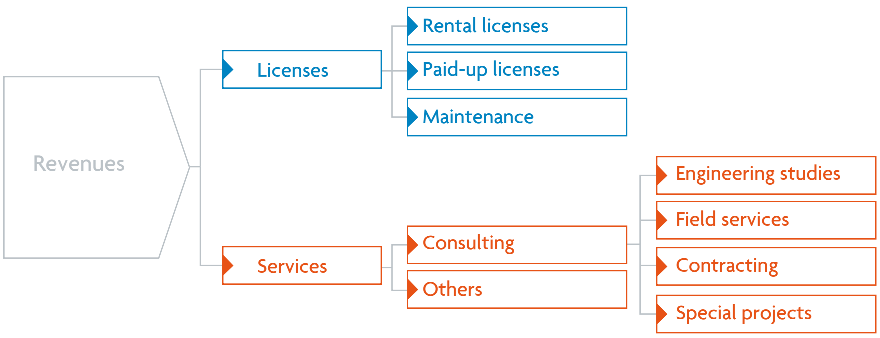


1.1.1.2. Consulting services (Services activity)

In addition to its main business activity as a software vendor, the Group also provides consulting services directly related to Virtual Prototyping. The Services activity, which accounted for 22% of 2017 revenue, includes Consulting and other services.

Consulting covers the following four fields:

- Engineering studies: 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: support services in conjunction with software sales activities (on- and off-site training and technical assistance);
- Contracting: studies, 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: 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

The industrial market is deeply changing while new challenges appear for its players. Draconian regulations, disruptive technologies (Artificial Intelligence, Big Data, Internet of Things…), competition more and more numerous, shorter time to market, constrain industrial players to change and to look to really competitive and performing partners. 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, with greater reliability, while ensuring their lifetime in a transformation of the economy to focus more on the experience ("the Outcome Economy").

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 down-time and repair costs.

In order to clarify its organization and make it more efficient, ESI Group is now structured around the three following business pillars: Engineering (design and development of industrial products), Manufacturing (fabrication of products) and In-Service (usage, piloting and maintenance of products from launch to repair and ultimate withdrawal), in line with the demands of Industry 4.0, the Smart Factory and the Outcome Economy.

These pillars (and the associated teams) focus on:

- Accelerate industrial innovation with Virtual Prototyping;
- Fill gaps and managing complexity in virtual product development with the end-to-end Virtual Prototyping method;
- Control the product lifecycle following rollout.

1.1.2.1. Accelerate industrial innovation with Virtual Prototyping

ESI Group aims to give customers across all industrial sectors the ability to virtually design, manufacture and assemble, part by part, complete and physically realistic virtual products: product that can be tested under normal and exceptional operating conditions and be monitored throughout its lifecycle to optimize its use and maintenance. The Group's customers can thus enjoy a physically correct view of issues related to manufacturing, assembly, coupling and usage between products and their performance – 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 offer real-time visualization and handling of virtual prototypes. Using Virtual Reality solutions such as ESI 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 is made for collaborative, decision-making (multi-functional, multi-site and multi-physical) at each stage of the development process.

1.1.2.2. Fill 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.

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 end-to-end 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 launch 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 (ESI IC.IDO), allowing customers to have teams all over the world sharing 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 after its launch 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 launch, 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 Twin™ 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 the Industry 4.0.

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 life in service.

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 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 life in service (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 in 2016). 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. In the January 2018 Transparency Market Research on simulation market, the size of this market is estimated at $16.7 billion in 2025.

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, whose specialized expertise and reputation in the field of physical simulation are known;
- 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 Team Center 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 April 2017, MSC Software, a software publisher specializing in design tools (CAE) was taken over by Hexagon AB. In September 2017, Dassault Systèmes announced the acquisition of EXA, a fluid flow simulation specialized company.

Given the high barriers 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 the one 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 or electronics.

The Product Performance Lifecycle™ approach, which enables manufacturers to develop a Hybrid Twin™ of their real product on a daily basis, brings ESI to target 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.

	2017		2016		2015	
Revenues	*(in € thousands)*	*(in % of the total)*	*(in € thousands)*	*(in % of the total)*	*(in € thousands)*	*(in % of the total)*
Europe, Middle East and Africa	63,821	47%	63,419	45%	57,098	46%
Asia-Pacific	49,941	37%	54,864	39%	44,291	36%
Americas	21,511	16%	22,268	16%	23,329	19%
TOTAL	**135,274**	**100%**	**140,551**	**100%**	**124,718**	**100%**

As in previous years, the Group maintained a strong international presence, with 86% 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;
- Battery life and electric vehicles.

Main customers: Alstom Transport, Audi, Daimler, Fiat Chrysler Automotives, Ford Motor Company, General Motors, Gestamp Group, Honda, Hyundai, Mercedes-Benz, Renault-Nissan, Shanghai Automotive Industry Corporation, Toyota, TRW Automotive, 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;
- Manufacturing process.

Main customers: Airbus Group, Alcoa, AVIC, Boeing, Bombardier, Embraer, Honeywell, General Electric, Honda, 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 customers: Alcoa, ArcelorMittal, AVIC, Caterpillar, General Electric, Hitachi, John Deere, Mahindra, 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 customers: EDF, Framatome, GDF, General Electric, Japan Atomic Energy Agency, Samsung, Siemens.

Government, Defense and Marine offering

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

- Complex physical phenomena;
- Comfort of military vehicles.

Main customers: CEA, CEE, Huntington Ingalls Industries, Naval Group, U.S. Department of Energy.

Electronics and Consumer Goods offering

ESI Group solutions include:

- Physical and chemical reactions;
- Unintended hypothetical circumstances and related safety measures.

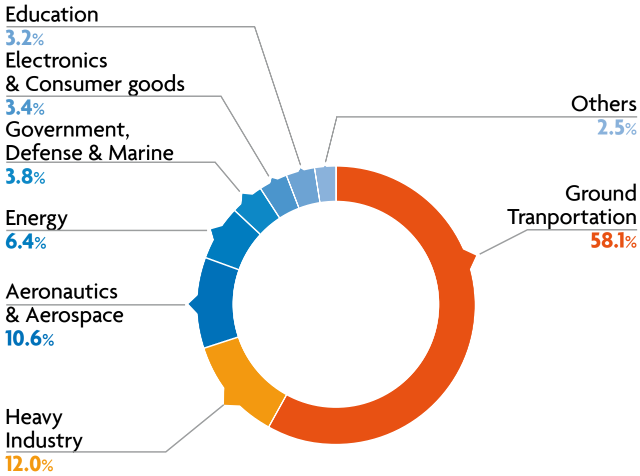
Main customers: Aixtron, Applied Materials, Google, Samsung.

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 2017, 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 2017, some 551 people worked within our distribution network to cover software sales, services production, and support customers. The Group's proprietary distribution network accounted for 92% of sales. Remaining sales were carried out indirectly via a network of third-party distributors 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 alliances are deeply rooted in its corporate strategy to develop and facilitate the adoption of Virtual Prototyping and the emergence of the Hybrid Twin™.

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 remarkable collaborations and a co-creation approach with world leaders such as Renault-Nissan, Volkswagen, or Honda in the automotive, or Boeing for the aeronautics. The Group's approach is based on building close and long-lasting relationships which meet the specific needs of customers looking to successfully incorporate Virtual Prototyping into various industrial sectors.

Strategic and academic partnerships

To ensure constant innovation, ESI Group enters into partnerships with many first-rate universities, technological institutes 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, encouraging 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.

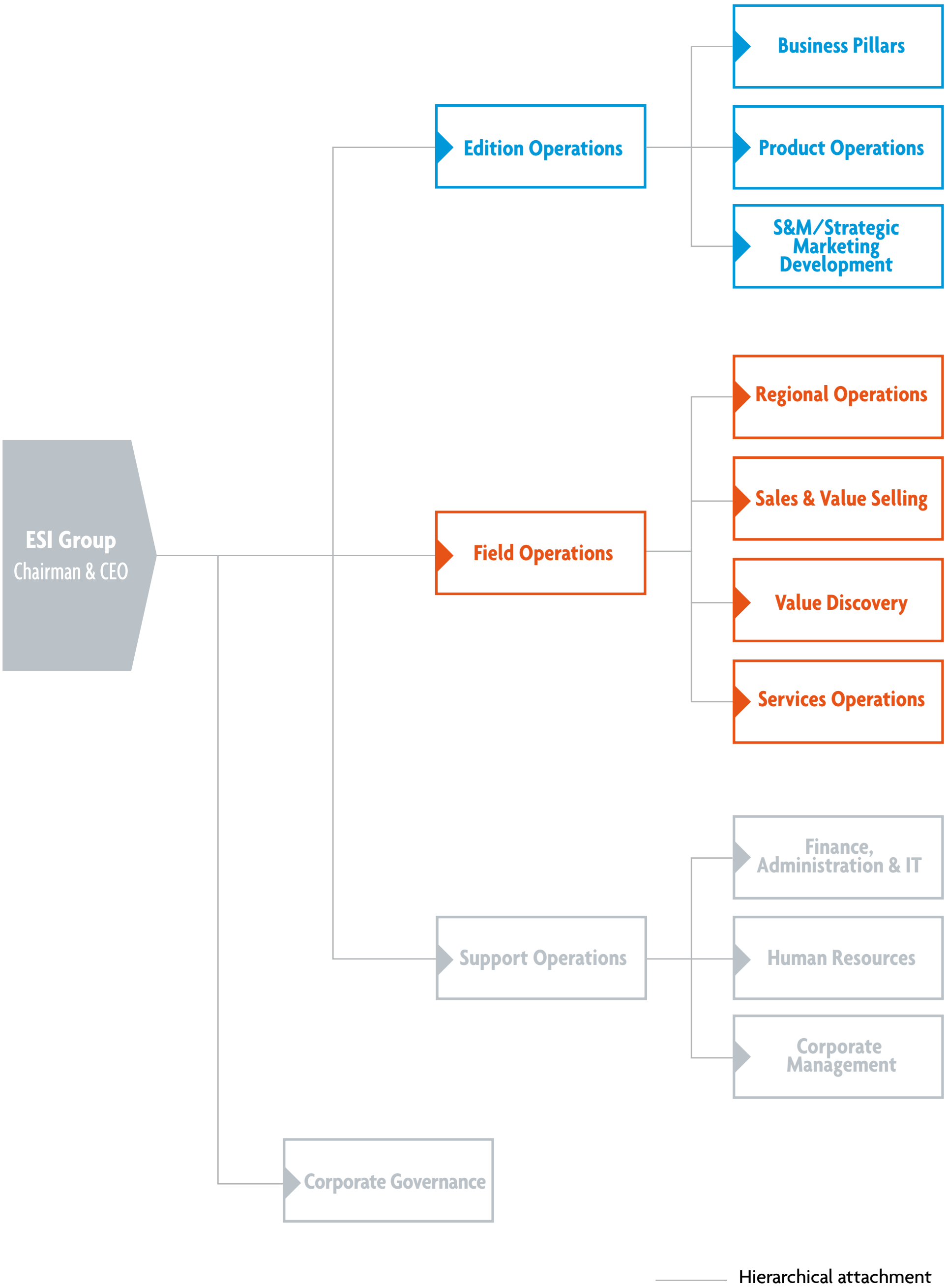
These numerous acquisitions have allowed ESI Group both to extend its sales positioning with an eye to ensuring optimal service to its customers, and to develop its solution portfolio, putting forth a comprehensive offering suited to the needs of industrial companies working in the Industry 4.0.

In the course of the year 2017, ESI Group strengthened its presence with the opening of new offices in Toulouse (France) and San Jose, California (United-States).

1.3. Group structure

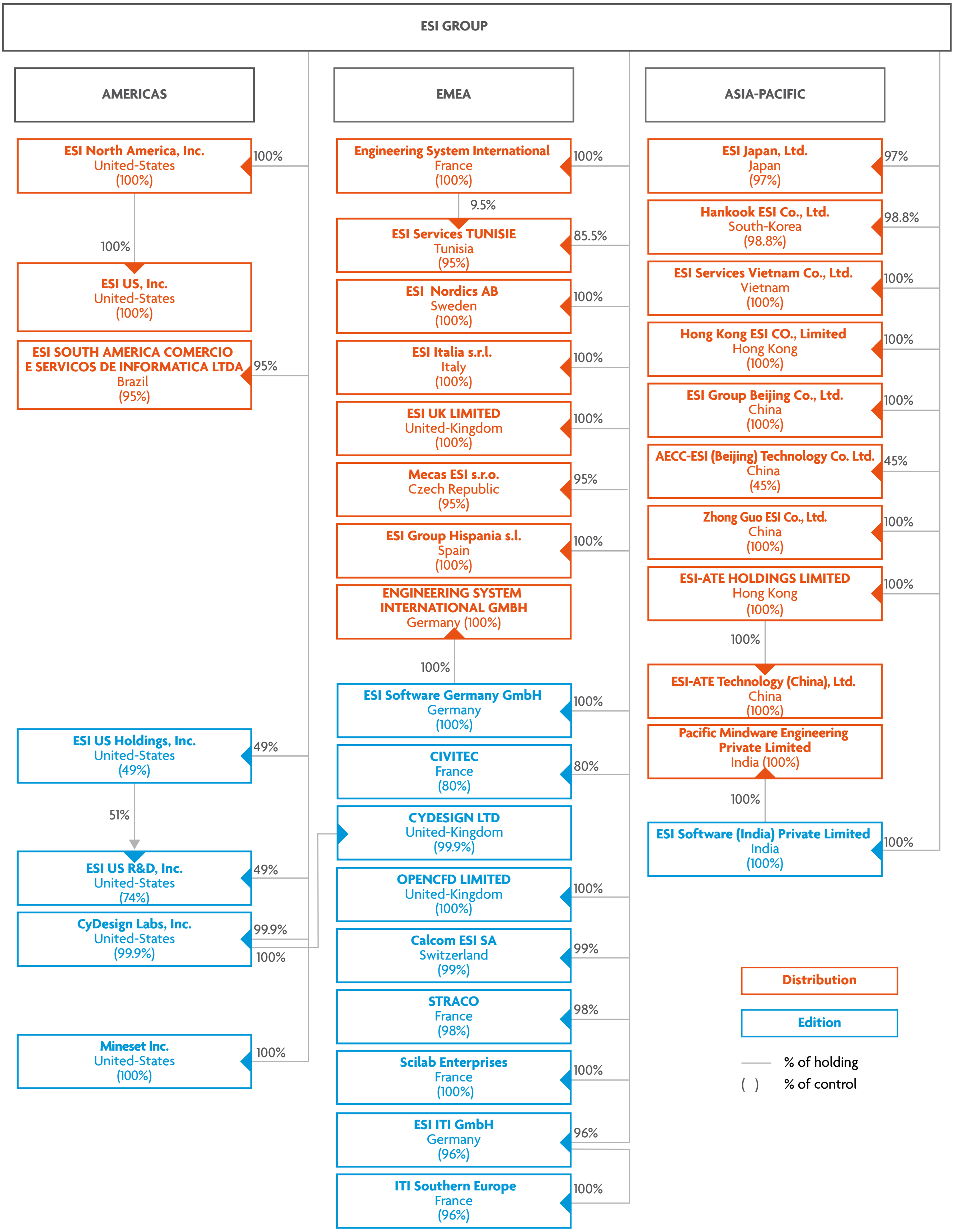
1.3.1. Operational flowchart

At April 30, 2018, the Group's operational flowchart was as follows:



1.3.2. Legal flowchart

At April 30, 2018, the Group's legal flowchart was as follows:



Note: the percentages of equity and voting rights are identical.
For more information, see note 3.4. "List of entities in the scope of consolidation" in the notes to the consolidated financial statements.

1.4. Selected financial information

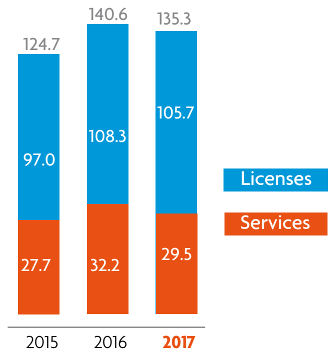
This information can be found in the consolidated financial statements.

1.4.1. Revenue

Full-year sales declined by 2.0% to €135.3 million at constant exchange rates. There was a negative Forex impact over the year of €2.5 million, mainly reflecting the depreciation of the Japanese yen – and to a lesser extent the US dollar. The product mix shifted towards Licenses, which contributed 78% of total sales, compared with 77% last year.

CHANGE IN REVENUE

(in €m)



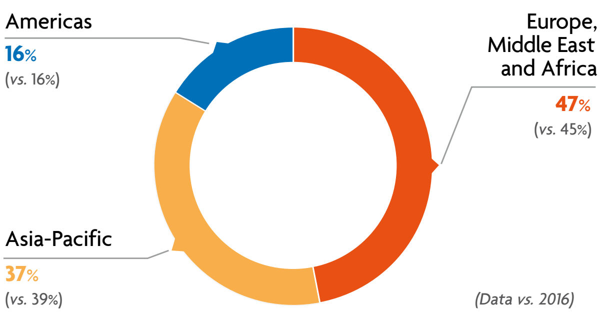
1.4.2. Strategic business alignment

Revenue from Licenses was stable year-on-year at €105.7 million at constant exchange rates. The Repeat Business rate was 82.4% at constant rates (80.7% at current rates), reflecting a lower share of revenue from Paid-Up Licenses (PUL) in 2017 and therefore representing a positive factor in future contract renewals. New Business, also affected by PUL impact, remained stable at constant rates at €17.8 million, compared to €17.9 million for 2016 (€17.6 million at current rates).

The Services business reported a 6.9% decline in revenue to €29.5 million (at constant exchange rates). As a reminder, Services grew by 16.5% in 2016 due to exceptionally favorable conditions in Japan. The increase in Special Projects as a proportion of Services (17.1% vs. 15.6%) confirms the trend already witnessed in 2016, driven by innovative co-creation projects that harness new technologies developed by the Group.

1.4.3. Breakdown of revenue by geographic area

GEOGRAPHICAL BREAKDOWN



Business in BRIC countries accounted for 12.5% of revenue compared to 13.3% in 2016.

1.4.4. Profitability

EBITDA fell from €18.3 million to €12.1 million, giving an EBITDA margin of 9.0% for the year, compared with 13.0% in 2016. This drop is a result of the transformation plan which weighed on growth, and increased investments in R&D.

Current operating profit was €9.2 million, representing a current operating margin of 6.8%, or €6.2 million less than last year.

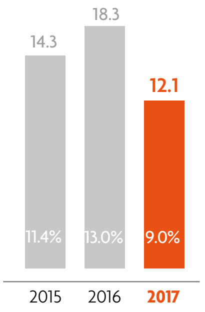
EBIT dropped €5.6 million to €8.1 million, giving an EBIT margin of 6.0%, compared to 9.8% in 2016.

The Financial Result was a net financial expense of €2.7 million, compared to a financial expense of €2.1 million in 2016, due to Forex losses following the depreciation of the Japanese yen against the euro.

Attributable Net Profit came out at €2.4 million in 2017, giving a net margin of 1.8%.

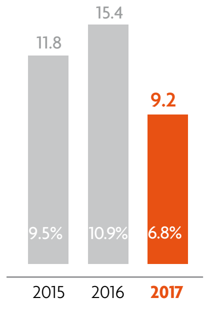
EBITDA

(in €m and % of revenue)



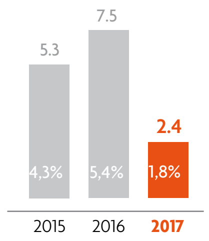
CURRENT OPERATING PROFIT

(in €m and % of revenue)



ATTRIBUTABLE NET PROFIT

(in €m and % 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 €2.7 million in 2015, €2.3 million in 2016, and €3.6 million in 2017. These investments pertain mainly to the computer equipment required to grow the Group's business as well as the work required to outfit and equip various facilities of the Group. Investments are primarily financed using the Group's equity.

Research & development costs

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

The net carrying amount of capitalized research and development costs stood at €41.4 million at January 31, 2018 and corresponds to approximately 14.3 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, 2017 and January 31, 2018 is presented in the table below. See notes 3.2.1. and 6.1.1. to the consolidated financial statements for further information.

(in € million)	January 31, 2017	Change in scope of consolidation	Foreign exchange gain/(loss)	January 31, 2018
Goodwill	40.8	0.9	(0.7)	41.0
Intangible assets with an indefinite useful life	12.0			12.0
TOTAL	**52.8**	**0.9**	**(0.7)**	**53.0**

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 2018, the Group plans to spend approximately €4 million. Capital costs committed at the time of writing came to approximately €1 million. 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. Risks factors and opportunities

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

1.6.1. Strategic risks

International economic and political environment

The global economic, commercial, and social as well as geo-political 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.

Competition

The specific nature of ESI Group's business and its unique positioning in the Virtual Prototyping field make it very difficult to attempt to precisely define its market. The complexity of the problems on which the Group focuses, the long experience it has acquired by working in close partnership with the largest industrial, its significant investments in research and development, the wide range of solutions it offers and the many acquisitions it has made over the years are all barriers for any newcomer who would like to enter its market.

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 58% 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.

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 Owner-ship Plans (stock option and free shares) and Skill Development Plans.

1.6.2. Operating risks

Business risks

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.

Effect linked to receivables

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). For business conducted in the government sector in China, it typically 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.

Use of external contractors

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.

Effect linked to the seasonality of the activity

Because of strong seasonal variations, ESI Group's Licenses business recognizes a large part of its annual revenue in the fourth quarter of the year.

Services contracts execution

Revenue generated by the Group's Services activity is recognized according to the percentage-of-completion method, and accounts for 22% of the Group's total revenue in 2017. 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.

Quality of products and services

ESI Group is committed to offer 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.

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 challenge

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, data-bases, 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:

Counterfeiting of products marketed by the Group

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 generated by ESI Group regardless of how the software is distributed (distributors and agents), and are linked to the FlexNet Publisher software (formerly known as Flexlm), which represents 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.

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

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

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

For software code acquired through an external growth operation, an intellectual property audit should be 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.

Contractual liabilities and damage clauses

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.

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

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

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

The intellectual property 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 arbitration process liable to have material impact on its financial position, activities or results (see note 10.2.2 to the consolidated financial statements).

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

Corruption, ethics and integrity

The Group issued an Ethics Charter which 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.

The ESI Charter also reaffirms the behavior to adopt in terms of business ethics, prohibiting any form of corruption.

1.6.5. Opportunities

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 (see 3.5.1.). Together, these enable ESI to produce increasingly innovative solutions in a timely manner.

Acquisition and strategic investments

Acquisitions of assets and/or companies, and creations of joint-ventures or partnerships

Since its creation, the Group has acquired companies or assets to complete its offer and to create business synergies. These acquisitions and strategic collaborations (joint-venture with BIAM, Beijing Institute of Aeronautical Materials) enable the Group to have a unique positioning and to be at the cutting edge of technology. Established partnerships with industrial leaders and the best universities and technological institutes reinforce this positioning.

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Strategic investments

Research and development investments are the Group's technological pillar. These investments are maintained at a high level since several years (approximately 30% of the Licenses revenues) to innovate, in particular with the development of new technologies such as Big Data or Artificial Intelligence.

Also, these investments support the new disruptive "PPL" (Product Performance Lifecycle™) approach. Founded on the shift from the Virtual Prototype to the connected Hybrid Twin™, the new solutions of the Group enable, for example, the predictive maintenance as well as the manufacturing and the assisted or autonomous driving. These solutions meet the challenges of the Industry 4.0 with a complete control of the product lifecycle, from its launch to its withdrawal, passing through the manufacturing of the new product and the operational monitoring of the used product which integrates the in-service damages and potential repairs.

2 CORPORATE GOVERNANCE

In accordance with the provisions of Article L. 225-37 and Articles L. 225-37-2 to L. 225-37-5 of the French Commercial Code, this chapter includes the report of the Board of Directors on corporate governance and outlines the following items:

- Corporate Governance Code followed by the Company and application of the recommendations contained therein;
- 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;
- Limits the Board of Directors imposes on the prerogatives of the Chief Executive Officer and Chief Operating Officers;
- All offices held by the Directors with any company with respect to the financial year;
- Principles and rules set out by the Board of Directors to determine compensation and benefits of any kind granted to executive corporate officers;
- Total compensation and benefits in kind payable or granted to each executive corporate officer in the 2017 financial year;
- As well as related party agreements concluded or which continue to exist in the 2017 financial year.

The information relative to (i) the authorizations in force to increase the share capital granted by the General Shareholders' Meeting to the Board of Directors as well as their use in the 2017 financial year, (ii) the factors likely to have an impact in the event of a public offer referred to in Article L. 225-100-3 of the French Commercial Code, and (iii) the procedures governing shareholder participation in General Meetings can be found in Section 7 of this Document.

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 report at its meeting held on April 17, 2018. The report will also be subject to review and approval by the Combined General Meeting to be held on July 18, 2018.

2.1. Corporate governance procedures

The Corporate Governance Code followed by the Company since April 2010 is the Middlenext Code. It may be consulted at www.middlenext.com. It should be noted that the most recent edition of the Code, including new areas of attention and four new recommendations, was published in September 2016. At the meeting held on April 18, 2017 the members of the Board of Directors have familiarized themselves with the updated Code and reiterated their commitment to comply with all recommendations included therein and to periodically review the areas of attention.

Throughout the 2017 financial year, 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.
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	2.6.
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	2.6.2.
R.17.	Supplementary pension plans	Recommendation followed by the Company	2.6.2.
R.18.	Stock options and grant of free shares	Recommendation followed by the Company	2.6.2.
R.19.	Review of areas of attention	Recommendation followed by the Company	2.1.

2.2. Functionning 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.

People over the age of 80 may not serve as Chief Executive Officer of the Company. If the current Chief Executive Officer comes to exceed this age, he or she will automatically be deemed to have resigned.

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.

At the end of 2017/beginning 2018, ESI Group proceeded with the transformation of its management and operational organization, in line with the adaptation of its new Hybrid Twin™ solutions.

The Group's organization is now structured, in alignment with the challenges of the Industry 4.0 and Smart Factory and the Outcome Economy, around three business pillars: "Engineering" (design and development of industrial products), "Manufacturing" (manufacturing of products) and "In-Service" (usage, control and maintenance of products, from launch to withdrawal).

In this context and to support this fundamental reorganization, Christian Matzen, GEC member, was promoted to Executive Vice President Sales and Marketing (EVP S&M), and Dominique Lefebvre was appointed Director of Product Operations and joins the GEC.

These executive corporate management changes follow the appointment in December 2017 of Angelita Reyes as the Group Human Resources Director, and GEC member.

To date, the GEC comprises the following members (from left to right):

- Ms. Angelita Reyes – Group Human Resources Director
- Mr. Mike Salari – Executive Vice President Engineering Services
- Mr. Vincent Chaillou – Board member and Chief Operating Officer in charge of the Edition Operations
- Mr. Alain de Rouvray – Chairman of the Board and Chief Executive Officer of the Company
- Mr. Christopher St.John – Chief Operating Officer in charge of the Distribution and Support Operations
- Mr. Christian Matzen – Executive Vice President Sales and Marketing
- Ms. Corinne Romefort-Régnier – Corporate Governance Director, Secretary of the Committee
- Mr. Dominique Lefebvre – Product Operations Director

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 Ordinary 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	74 years old
Mr. Chaillou, Vincent	Board member	2004	AGM 2020	68 years old
Ms. de Rouvray, Cristel(1)	Board member	1999	AGM 2021	41 years old
Mr. des Isnards, Charles-Helen	Independent Board member	2008	AGM 2021	73 years old
Mr. d'Hotelans, Eric	Independent Board member	2008	AGM 2019	67 years old
Ms. Jacq, Véronique(2)	Independent Board member	2014	AGM 2018	50 years old
Ms. Ramanathan, Rajani(2)	Independent Board member	2014	AGM 2018	51 years old
Mr. de Balmann, Yves	Independent Board member	2016	AGM 2020	72 years old

(1) Ms. Cristel de Rouvray is the daughter of Mr. Alain de Rouvray, Chairman and Chief Executive Officer.
(2) The renewal of the appointments of these Directors is submitted for approval by the Combined General Meeting of July 18, 2018.

The following provides a summary of the changes in the composition of Board of Directors over the course of FY 2017 as well as the changes expected to be made over the course of the current fiscal year:

	FY 2017	FY 2018
Resignation	N.A.	N.A.
Reappointment	Ms. Cristel de Rouvray Mr. Charles-Helen des Isnards	Ms. Véronique Jacq Ms. Rajani Ramanathan
Appointment	N.A.	N.A.

Personal information of current Board members

Alain de Rouvray

Chairman and Chief Executive Officer

Bate of birth: 10/08/1943

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 *École Centrale de Paris* (1967), a degree from the 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 *École 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

Bate of birth: 03/24/1950

French

Vincent Chaillou is the Company COO in charge of the Software Publishing Division. Vincent Chaillou holds a PhD in civil engineering from the *École des Ponts et Chaussées* (1973) and an engineering degree from *École 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
- Chairman of the association ID4CAR
- Member of the Board of the Railenium Technological Research Institute
- 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:

- Member of the Board of the association ID4CAR
- Member of the Board of the company CADEMCE SAS

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

Cristel de Rouvray

Board member

Bate 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

Bate 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

Eric d'Hotelans

Independent Board member

Bate of birth: 07/03/1950

French

Eric 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. President of the Group's online sales since 2009, he retired in July 2017.

Current offices held:

- President of the company Home Shopping Services SA
- President of the company CADEMCE SAS
- 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
- Member of the Board of the company M6 Films
- Member of the Board of the company M6 Diffusion SA

Business address:
M6 – 89, avenue Charles-de-Gaulle – 92575 Neuilly-sur-Seine Cedex

Véronique Jacq

Independent Board member

Bate of birth: 01/02/1968

French

A Civil Engineer and graduate of the *École 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. She is now in charge of Seed & venture Capital operations.

Current offices held:

- Member of the Board of the company Netatmo
- Member of the Board of the company Evaneos
- Member of the Board of the company OpenClassrooms
- Censor of the company Scality

Offices held over the past five years:

- Censor of the company DelfMEMS
- Censor of the company Bonitasoft
- Censor of the company Teads

Business address:
Bpifrance – 6-8, boulevard Haussmann, 75009 Paris

Rajani Ramanathan

Independent Board member

Bate of birth: 03/25/1967

American, Indian

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 Vayu Technology corp, Feathercap, Fitbliss, BoonVR, Realine Technology, Liforgraph, Traction Labs, Relatas, 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.

Current offices held:

- Member of the Board of the company CloudCherry

Offices held over the past five years:

None

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

Yves de Balmann

Independent Board member

Bate of birth: 05/28/1946

French, American

A graduate of Stanford University in the United States and *École 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 Excelon Corporation
- Member of the Board of the company Finalsite
- 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

Experienced and complementary Directors

As it can be seen in the short biographies presented above, the members of the Board of Directors exhibit, 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 three 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. Eric 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.

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 developments, in particular regarding the responsibilities of the Audit Committee, and to ensure that the rules are consistent with best practices of corporate governance. In light of the recent revision of the Middlenext Code in September 2016, the Board will modify the rules of procedure as necessary in the 2018 financial year 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:

- 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);
- 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;
- Rules regarding Directors' compensation;
- 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 (IFA) 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 Board of Directors on corporate governance;
- 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;
- Establishing and updating the Rules of procedure of the Board of Directors.

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.

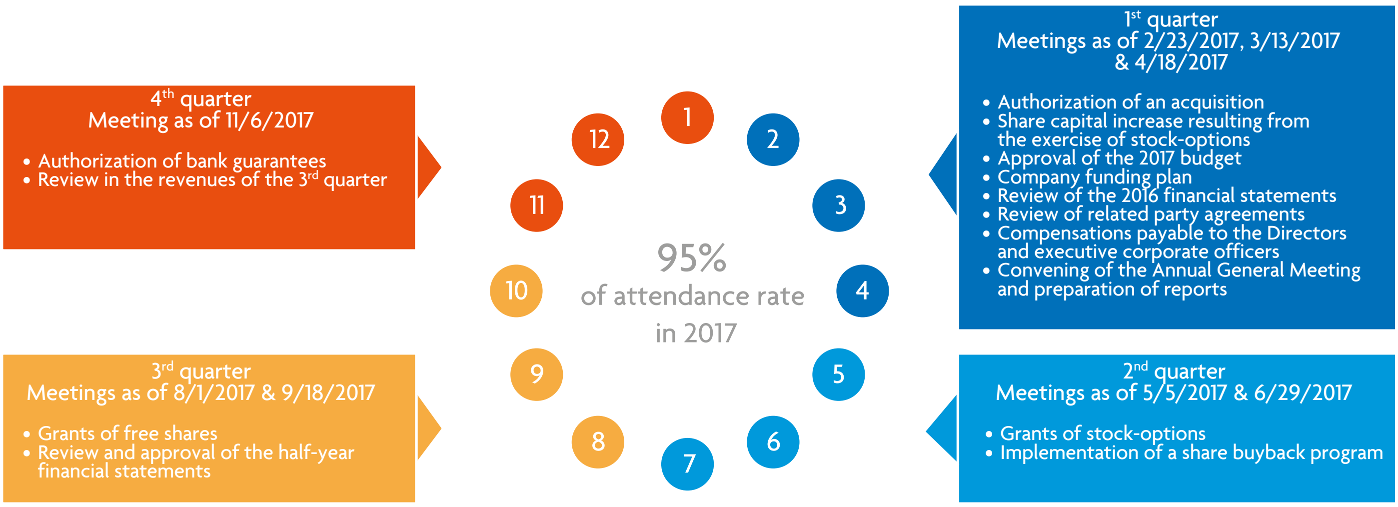
Works of the Board of Directors in 2017

In 2017, the Board of Directors held eight meetings. The attendance rate was 95.3%. The Strategic Committee met two times, with an attendance rate of 100%; the Audit Committee met seven times with an attendance rate of 100%; the Compensation Committee met four times with an attendance rate of 100%; the Technology and Marketing Committee met four times with an attendance rate of 93.8%.

ATTENDANCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS IN 2017

Director	Board of Directors		Strategic Committee		Audit Committee		Compensation, Nomination and Governance Committee		Technology and Marketing Committee	
	Attendance rate	Number of meetings	Attendance rate	Number of meetings	Attendance rate	Number of meetings	Attendance rate	Number of meetings	Attendance rate	Number of meetings
Mr. Alain de Rouvray	100%	8/8	100%	2/2	-	-	100%	4/4	100%	4/4
M. Vincent Chaillou	100%	8/8	100%	2/2	-	-	-	-	100%	4/4
Ms. Cristel de Rouvray	100%	8/8	100%	2/2	-	-	100%	4/4	-	-
Mr. Charles-Helen des Isnards	100%	8/8	100%	2/2	100%	7/7	100%	4/4	-	-
Mr. Eric d'Hotelans	100%	8/8	-	-	100%	7/7	100%	4/4	-	-
Ms. Véronique Jacq	75%	6/8	-	-	100%	7/7	-	-	75%	3/4
Ms. Rajani Ramanathan	88%	7/8	100%	2/2	-	-	100%	4/4	100%	4/4
Mr. Yves de Balmann	100%	8/8	-	-	-	-	-	-	-	-
TOTAL ATTENDANCE RATE	**95.3%**	-	**100%**	-	**100%**	-	**100%**	-	**93.8%**	-

In 2017, the Board of Directors deliberated on the following items:



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 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:

		Specialized committees of the Board of Directors			
Last name, First name	**Independence**	**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, Eric	Yes		Member	Member	
Ms. Jacq, Véronique	Yes		Member		Member
Ms. Ramanathan, Rajani	Yes	Member		Member	Chair
Mr. de Balmann, Yves	Yes				

* *From the 2018 financial year Mr. de Rouvray will no longer be a member of the Compensation, Nomination and Governance Committee.*

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.

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.

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.

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.

Board assessment

In accordance with Middlenext Code Recommendation R.11, in the 2017 financial year, 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 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. Compensation paid to the 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 June 29, 2017 set the total maximum compensation paid to members of the Board of Directors in the form of Directors' fees for the 2017 financial year at €180,000, 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 the 2017 financial year.

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	FY 2017	FY 2016	FY 2015
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.	N.A.	4,000
Ms. Cristel de Rouvray			
• Directors' fees	17,500	17,500	47,042
• Other compensation	82,105	70,503	54,270
Mr. Charles-Helen des Isnards	41,500	31,500	31,033
Mr. Eric d'Hotelans	16,500	16,500	16,500
Ms. Véronique Jacq	11,200	12,182	14,078
Ms. Rajani Ramanathan	27,975	27,567	18,033
Mr. Yves de Balmann	17,750	16,750	N.A.
TOTAL			
• Directors' fees	**148,425**	**137,999**	**146,686**
• Other compensation	**82,105**	**70,503**	**54,270**

2.6. Compensation paid to the Executive corporate officers

2.6.1. 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 July 18, 2018 will be asked, by the adoption of the seventh resolution featured in Chapter 6 of this Registration Document, to approve the principles and criteria for attributing and distributing compensation payable to company officers in respect of their term.

It should be noted that, in accordance with Article L. 225-37-2 of the French Commercial Code, payment of the variable and exceptional components for FY 2017 will be subject to the approval of such amounts by the adoption of specific resolutions by the General Meeting convened to approve the financial statements for FY 2017.

To date, this report concerns the following company officers: Alain de Rouvray, Chairman and Chief Executive Officer, Vincent Chaillou, Chief Operating Officer for Edition Operations, and Christopher St.John, Chief Operating Officer of Field 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.

The Compensation, Nomination and Governance Committee puts forth a proposal to the Board of Directors regarding compensation of executive 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 the consistency of the objectives with the Company's medium-term strategy, of the shareholders' interests and of changes to the Middlenext Code. 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.

Implementation of the principles governing total annual compensation

The principles governing the compensation of the Chairman and Chief Executive Officer have remained unchanged since 2014 and those governing the compensation of the Chief Operating Officers have not changed since 2015. Moreover, the Compensation, Nomination and Governance Committee commissioned a study to determine whether the compensation principles were consistent with those of the market for positions of similar responsibility and in comparable companies, taking into account geographical location and coherence with the wage policy applied to all employees.

Thus, the principles and criteria applied to determine, attribute and distribute the components of total compensation and the benefits of all types granted to company officers of ESI Group for FY 2018 were reviewed by the Compensation, Nomination and Governance Committee at its meeting of April 16, 2018 before being proposed to the Board of Directors, which approved them at its meeting of April 17, 2018.

An analysis of the study conducted showed the need for a compensation adjustment in 2018, to be applied as of August 1, 2018, the date agreed upon to update all compensation within the Group.

The following principles govern the compensation of the Chairman and Chief Executive Officer:

- The variable objective-based component is equal to 50% of the fixed compensation;
- The benefits in kind that were granted in connection with the relocation of the Chairman and Chief Executive Officer will be eliminated and will be incorporated into his fixed compensation;
- The variable component may vary between 0% and 100% of the amount of the variable objective-based component.

The following principles govern the compensation of the Chief Operating Officers:

- The variable objective-based component is equal to 57% of the fixed compensation;
- The benefits in kind are the provision of a company car and vary depending on the type of vehicle;
- The variable component may vary between 0% and 100% of the amount of the variable objective-based component.

Fixed compensation

Fixed compensation paid to executive officers is determined based on the level and complexity of responsibilities, experience in the position and length of service in the Group, as well as practices observed in groups or companies of similar size.

The composition of the compensation of the Chairman and Chief Executive Officer will change due to the elimination of benefits in kind, the amount of which is incorporated into his fixed compensation. As a result, fixed compensation as of August 1, 2018 will be $575,000 instead of $574,000 (benefits in kind included).

For the two Chief Operating Officers, compensation is set at €210,000 in order to be more closely aligned with market practices and to ensure internal consistency.

Variable compensation

Executive officers receive annual variable compensation, which is calculated on the basis of demanding, precise, 100% quantitative and pre-established criteria defined 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. Variable compensation must not lead to excessive or inappropriate risk-taking. To this end, it remains fair compared to the fixed component.

For the Chairman and Chief Executive Officer, the variable compensation is equal to 50% of fixed compensation and totals $287,500.

For the two Chief Operating Officers, the variable compensation is equal to 57% of fixed compensation and totals $120,000.

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 Chairman and Chief Executive Officer is not eligible for long term compensation due to his position as a founding shareholder of the Company. The 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 company agents.

Benefits in kind

Benefits in kind include various components determined by the personal situation of company agents:

- 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 officers may be eligible for exceptional compensation. The decision to grant such compensation must be exceptional, and justified and explained by the Board. Payment is subject to approval by the Annual Ordinary General Meeting of Shareholders.

Commitments made to the executive officers

Severance pay

There is no provision for severance pay for executive officers.

Non-compete compensation

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

Supplementary retirement plan

There is no provision for any supplementary retirement plan for executive officers.

Provident scheme and healthcare expense reimbursement plan

Executive 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 Chairman and Chief Executive Officer or Chief Operating Officer, the Board of Directors will decide to suspend the nominee's employment contract, unless otherwise stipulated by the Annual General Meeting of Shareholders.

2.6.2. Report on the compensations paid to the Chief Executive Officer and Chief Operating Officers in the 2017 financial year

This report prepared by the Board of Directors, on a proposal of the Compensation, Nomination and Governance Committee, in accordance with Article L. 225-37-3 of the French Commercial Code, presents the total compensations and benefits of all kinds payable or granted with respect to the 2017 financial year to the Chief Executive Officer and both Chief Operating Officers. It describes separately the fixed, variable and exceptional components of the total compensation and benefits of all kinds, as well as the criteria for calculating these components and the circumstances under which they were granted. Also, this report gives an overview of the commitments made by the Company for the benefit of the executive corporate officers.

The Ordinary General Meeting to be held on July 18, 2018 will be called upon to approve the fixed, variable and exceptional components constituting the total compensation and benefits of all kinds paid or granted with respect to the 2017 financial year to the executive corporate officers of ESI Group pursuant to Article L. 225-100 of the French Commercial Code.

COMPENSATION PAYABLE OR GRANTED FOR THE 2017 FINANCIAL YEAR TO MR. ALAIN DE ROUVRAY, CHIEF EXECUTIVE OFFICER

Components of the compensation	Amount or accounting valuation submitted for approval	Description
Fixed compensation	€350,109	The fixed compensation payable to Mr. de Rouvray as Chief Executive Officer in respect of the 2017 financial year amounts to $400,000 (unchanged compared to 2016). This compensation equals €350,109.
Variable annual compensation	€42,172	The amount of the variable annual compensation payable to Mr. de Rouvray is limited to 50% of his fixed compensation. The variable compensation payable to Mr. de Rouvray as Chief Executive Officer with respect to the 2017 financial year amounts to $48,181 which equals €42,172, representing 24.1% of the maximum compensation.
Long term or deferred compensation	N.A.	No long term of deferred compensation was granted by the Board of Directors.
Exceptional compensation	N.A.	No exceptional compensation was granted by the Board of Directors.
Attendance fees	€10,000	The attendance fees amount to €10,000, this amount is unchanged compared to the 2016 financial year.
Stock-options and performance shares	N.A.	No stock-options nor performance shares were granted by the Board of Directors.
Benefits in kind	€152,298	These benefits in kind include an allowance for vehicle of $24,000 and a housing allowance of $150,000. The total amount is $174,000, unchanged compared with the 2016 financial year, and equals €152,298.
Severance pay	N.A.	Mr. de Rouvray is not a beneficiary of any severance pay.
Retirement compensation	N.A.	Mr. de Rouvray is not a beneficiary of any retirement compensation.
Non-compete compensation	N.A.	Mr. de Rouvray is not a beneficiary any non-compete compensation.
Supplementary retirement plan	N.A.	Mr. de Rouvray is not a beneficiary of any supplementary retirement plan.

COMPENSATION PAYABLE OR GRANTED FOR THE 2017 FINANCIAL YEAR TO MR. VINCENT CHAILLOU, CHIEF OPERATING OFFICER

Components of the compensation	Amount or accounting valuation submitted for approval	Description
Fixed compensation	€198,550	The fixed compensation payable to Mr. Chaillou as Chief Operating Officer in respect of the 2017 financial year amounts to €198,550 (unchanged compared to 2016).
Variable annual compensation	€30,850	The amount of the variable annual compensation payable to Mr. Chaillou is limited to 60% of his fixed compensation. The variable compensation payable to Mr. Chaillou as Chief Operating Officer with respect to the 2017 financial year amounts to €30,850 which equals 25.7% of the maximum compensation.
Long term or deferred compensation	N.A.	No long term of differed compensation was granted by the Board of Directors.
Exceptional compensation	N.A.	No exceptional compensation was granted by the Board of Directors.
Attendance fees	€6,000	The attendance fees amount to €6,000, this amount is unchanged compared to the 2016 financial year.
Stock-options and performance shares	N.A.	No stock-options nor performance shares were granted by the Board of Directors.
Benefits in kind	€7,908	The benefits in kind include an allowance for vehicle of €7,908.
Severance pay	N.A.	Mr. Chaillou is not a beneficiary of any severance pay.
Retirement compensation	N.A.	Mr. Chaillou is not a beneficiary of any retirement compensation.
Non-compete compensation	N.A.	Mr. Chaillou is not a beneficiary any non-compete compensation.
Supplementary retirement plan	N.A.	Mr. Chaillou is not a beneficiary of any supplementary retirement plan.

COMPENSATION PAYABLE OR GRANTED FOR THE 2017 FINANCIAL YEAR TO MR. CHRISTOPHER ST.JOHN, CHIEF OPERATING OFFICER

Components of the compensation	Amount or accounting valuation submitted for approval	Description
Fixed compensation	€177,650	The fixed compensation payable to Mr. St.John as Chief Operating Officer in respect of the 2017 financial year amounts to €177,650 (unchanged compared to 2016).
Variable annual compensation	€29,681	The amount of the variable annual compensation payable to Mr. St.John is limited to 62% of his fixed compensation. The variable compensation payable to Mr. St.John as Chief Operating Officer in respect of the 2017 financial year amounts to €29,681 which equals 27.0% of the maximum compensation.
Long term or deferred compensation	N.A.	No long term of differed compensation was granted by the Board of Directors.
Exceptional compensation	N.A.	No exceptional compensation was granted by the Board of Directors.
Attendance fees	N.A.	M. St.John is not a member of the Board of Directors.
Stock-options and performance shares	N.A.	No stock-options nor performance shares were granted by the Board of Directors.
Benefits in kind	€37,488	The benefits in kind include a housing allowance of €37,488.
Severance pay	N.A.	Mr. St.John is not a beneficiary of any severance pay.
Retirement plan	N.A.	Mr. St.John is not a beneficiary of any retirement compensation.
Non-compete compensation	N.A.	Mr. St.John is not a beneficiary any non-compete compensation.
Supplementary retirement plan	N.A.	Mr. St.John is not a beneficiary of any supplementary retirement plan.

SUMMARY TABLE OF COMPENSATION AND STOCK OPTIONS GRANTED TO EACH EXECUTIVE CORPORATE OFFICER, IN € (TABLE 1 OF AMF RECOMMENDATIONS)

(in €)	FY 2017	FY 2016
ALAIN DE ROUVRAY		
Compensation owed for the year	554,579	610,059
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	243,308	265,235
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	147,950
Value of provisions for post-employment benefits	74,456	74,456
CHRISTOPHER ST.JOHN		
Compensation owed for the year	244,819	268,490
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	147,950
Value of provisions for post-employment benefits	22,206	22,206

SUMMARY TABLE OF COMPENSATION DUE AND PAID TO EACH EXECUTIVE CORPORATE OFFICER, IN € (TABLE 2 OF AMF RECOMMENDATIONS)

	2017		2016	
Mr. de Rouvray	Amounts owed	Amounts paid	Amounts owed	Amounts paid
Salary	350,109	350,109	362,136	362,136
Bonuses	42,172	77,724	80,394	63,430
Directors' fees	10,000	10,000	10,000	10,000
Benefits in kind	152,298	152,298	157,529	157,529
TOTAL	**554,579**	**590,131**	**610,059**	**593,095**

Mr. Chaillou	2017 Amounts owed	2017 Amounts paid	2016 Amounts owed	2016 Amounts paid
Salary	198,550	198,550	198,550	198,550
Bonuses	30,850	46,225	53,280	52,842
Directors' fees	6,000	6,000	6,000	6,000
Benefits in kind	7,908	7,908	7,405	7,405
TOTAL	**243,308**	**243,308**	**265,235**	**264,797**

Mr. St.John	2017 Amounts owed	2017 Amounts paid	2016 Amounts owed	2016 Amounts paid
Salary	177,650	177,650	177,650	177,650
Bonuses	29,681	48,707	48,840	43,925
Benefits in kind	37,488	37,488	42,000	42,000
TOTAL	**244,819**	**263,845**	**268,490**	**263,575**

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 FY 2017

No share subscription or purchase options were granted to executive corporate officers during FY 2017.

Performance shares granted to corporate officers (list of names) during FY 2017

No performance shares were granted to corporate officers during FY 2017.

Stock options exercised by each executive corporate officer during FY 2017

No share subscription or purchase options were exercised by corporate officers during FY 2017.

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
Mr. Christopher St.John	No. 6 (July 21, 2016)	5,000	147,950	2018	2020
Mr. Vincent Chaillou	No. 6 (July 21, 2016)	5,000	147,950	2018	2020
TOTAL		**10,000**	**295,900**		

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

SUMMARY TABLE OF ALLOWANCES AND BENEFITS FOR EXECUTIVE CORPORATE OFFICERS (TABLE 11 OF AMF RECOMMENDATIONS)

Executive corporate officers	Employment contract Yes	Employment contract No	Supplementary retirement plan Yes	Supplementary retirement plan No	Payments or benefits due as a result of termination or change in position Yes	Payments or benefits due as a result of termination or change in position 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

2.7. Information on related party agreements which were signed or continued to exist during the 2017 financial year

2.7.1. Related party agreements falling under the scope of Article L. 225-38 of the French Commercial Code: Consulting Services Agreement with a Director

It should be noted that on April 15, 2015 the Company and Ms. Cristel de Rouvray, Director, concluded a Consulting Service Agreement. This Agreement is regarded as a regulated agreement referred to in Article L. 225-38 of the French Commercial Code and was earlier authorized by the Board of Directors held on April 14, 2015. This Agreement was renewed under the same conditions for the 2016 financial year, and was reviewed by the Board of Directors held on April 8, 2016.

On the recommendation of the Compensation, Nomination and Governance Committee held on March 28, 2017, the Board of Directors held on April 18, 2017 decided to renew the Agreement while modifying its terms to meet the market conditions. This new Agreement between ESI North America Inc. and Ms. de Rouvray was signed based on an estimated maximum annual cost of $ 100,000 for an average of 52 hours per month.

Following the review by the Compensation Committee held on April 16, 2018, it was recommended to renew the Agreement under the same conditions for the 2018 financial year. The Board of Directors held on April 17, 2018 approved this renewal.

The objective of this consulting contract is to entrust to Ms. de Rouvray specific missions relating to Human Resources, consulting and strategic management.

Il should be noted that the special report by the Statutory Auditors on the agreements referred to in Article L. 225-38 of the French Commercial Code is presented in Section 2.7.3 of this Registration Document and will be submitted for approval of the General Meeting to be held on July 18, 2018.

2.7.2. Related party agreements already approved and which continue to exist in the 2017 financial year

No related party agreements authorized by the Board of Directors and approved by the General Meeting in prior years continued to exist in the 2017 financial year.

2.7.3 Statutory Auditors' report on regulated agreements and commitments

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.

(Annual General Meeting for the approval of the financial statements for the year ended January 31, 2018)

To the shareholders,

In our capacity as Statutory Auditors of your Company, 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.

Consulting Service Agreement with a Board member

- **With:** Ms. Cristel de Rouvray.
- **Nature and purpose:** Consulting Service Agreement.
- **Terms and conditions:** On April 15, 2015, the Company signed a Consulting Service Agreement 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 Agreement was renewed under the same conditions for the 2016 financial year, and was reviewed by the Board of Directors held on April 8, 2016.

  On the recommendation of the Compensation, Nomination and Governance Committee held on March 28, 2017, the Board of Directors held on April 18, 2017 decided to renew the Agreement for the 2017 financial year based on an estimated maximum annual cost of USD 100,000 for an average of 52 hours per month.

  At January 31, 2018, the annual cost of this contract amounts to USD 93,600.
- **Grounds of the interest for the Company:** The purpose of this Consulting Service Agreement is to grant to Ms. 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 23, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit
Thierry Charron

ERNST & YOUNG Audit
Frédéric Martineau

3 CORPORATE SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY

CSR awards and commitments

Gaia Index

ESI Group is awarded first prize of the Gaia campaign 2017 for the second year in a row in the category of mid-cap companies with revenue of less than €150 million, and keeps its place in the index which singles out the 70 top-rated companies in the CSR domain.

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.

The Global Compact

ESI Group signed the Global Compact (United Nations Global Compact) and thus undertakes to align its CSR strategy on the 10 United Nations principles, and to yearly communicate its progress to its stakeholders through the release of a Communication on Progress (COP). For more information, visit www.unglobalcompact.org.

3.1. ESI Group policy in terms of social, societal and environmental responsibility (CSR)

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 Smart Virtual Prototyping, through a responsible innovation approach. 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 the civil society, towards all of whom serious commitments have been made.

This fifth 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. Our 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. The methodology

Data collection and consolidation

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, Thailand and Vietnam;
- Europe, Middle East and Africa = Czech Republic, France, Germany, Italy, Netherlands, Russia, Spain, Sweden, Switzerland, Tunisia and the United Kingdom.

Scope

In 2017, in keeping with its commitments, 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 countries. This gives the Group a reliable, international picture of all employment indicators. Exceptions remain concerning the absenteeism rate and the professional training for which not all subsidiaries are able to report in a sufficiently reliable way, due partly to terminology and partly to local practices. These indicators are provided for 97% of the total workforce in 2017 (Sweden, Italy, Netherlands, Brazil and Russia are not included).
- Scope of environmental reporting:

  In 2017, the Company included Switzerland, China and Spain 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, India, Switzerland, China and Spain, representing 91% of the total workforce (versus 85% in 2016).
- Scope of societal reporting:

  Societal information is provided at a global level, with the reporting scope covering 100% of our headcount since 2016.

3.1.4. ESI Group values

The values of ESI Group infuse this 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 Responsibility 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.

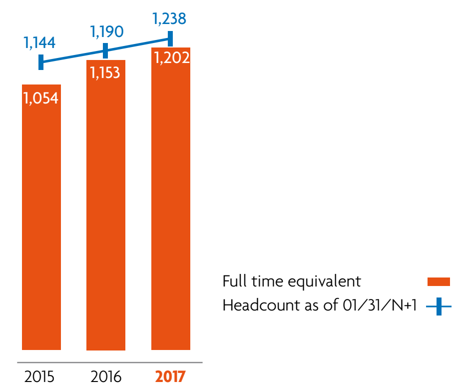
3.2.1. Employee headcount

ESI Group's employees consist primarily of highly-trained engineers and Ph.Ds 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 at an international level.

Data related to headcount is calculated on the number of employees as of January 31, 2018.

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. At January 31, 2018, the ESI Group workforce consisted of 1,238 employees, compared to 1,190 at January 31, 2017, and included eight employees from acquisitions over the period. The average headcount in 2017 was 1,202 employees, compared to 1,153 in 2016.

The percentage of the Group's workforce on permanent contracts was 93%. Limited employment contracts such as internships, apprenticeships and short term contracts accounted for 7% of the total workforce compared to 5.2% in 2016.

In 2017, 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 sustainability. 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.

Finally, the transformation of the Group and its new solutions focused on Hybrid Twin™, in connection with ESI's core business, provide an opportunity to develop and expand the trades and skills of the existing teams, and to recruit new talents directly related to these new concepts.

Recruiting and retaining talent

The Group pays special attention to the onboarding of new hires through an induction program managed locally. 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.

In 2018, a corporate induction program will also be launched. A pilot project has been tested in April bringing together new employees from France and Germany who have been hired since the beginning of 2018. The objective of this program is to give to all Group newcomers a more in-depth knowledge about ESI organization, values, and challenges. It also provides an opportunity to meet with top management in person and to interact with colleagues from different countries.

The Group has also defined an internal mobility program, integrated in the performance assessment tool, enabling each employee to express their motivations and thereby highlight their skills and expertise by applying for positions available within the Group, linked with needs and projects of the customers.

Professional development and career management

The Group has an individual performance and development review process that calls for at least one performance assessment per year between an employee and his or her supervisor. The objective is to evaluate the past year objectives, set new ones for the coming year and also to build a personal development plan.

The initial phase of integrating digital annual performance and development reviews started in the Americas, Europe and India in 2017. Asia has been integrated later for the fiscal year 2018, mainly for language issues.

In 2017, 81.4% of employees achieved a performance review on the new online tool (excluding Asia).

This new phase in the performance evaluation process aims to enhance annual feedback by promoting data exchange, monitoring and archiving, especially for remote teams. It also provides better access to performance data, employee satisfaction, and professional training objectives to foster a more proactive career management.

These performance reviews are the means for collecting information as training needs and development plans, and they make it easier to construct appropriate local and/or global training plans that meet the needs of a changing business. These performance reviews also represent the opportunity to identify the Company's high potentials and put in place individual development plans. Additionally, this system provides support for certain employees via a Performance Improvement Plan.

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 November 2017, a Virtual ESI Campus has been implemented in the corporate intranet: it enables all ESI employees to have access to various trainings. The objective is to democratize the access to training and to support employees to acquire new skills and to develop competences on a common basis.

In 2017, 587 employees, or 47% of the workforce, received trainings, at a cost to the Company of €352,000.

In total for 2017, 16,676 training hours were provided, or an average of 28.4 hours of training per employee trained.

A key priority on the leadership skill has been identified by the top management in 2017 and pursues in 2018.

Actions towards 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 EMEA, we can highlight the *École Centrale de Paris* (France), the Technical University of Dresden (Germany), the University of West Bohemia (Czech Republic), ENIT of Tunisia, 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.

The Chair created in 2013 with the *École Centrale de Nantes*, France, enables for the first time in 2017 to offer to young searchers to contribute to a research project between the school, ESI and a customer or partner. In February 2018, the Group announced the launch of a 5-year joint research program with the CEU Cardenal Herrera University (CEU-UCH) in Valencia, Spain. This kind of partnership, supported by our Scientific Department, will be launched in September 2018 with the creation of the ESI Chair in the ENSAM, a French engineering school internationally reputed and structured in network.

Additionally, the Group is very involved in working with young graduated and integrated 46 students in 2017 (44 interns and two apprentices).

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, under the responsibility of the local Human Resources Departments and working with employee representative bodies such as the Health, Safety and Working Conditions Committee (CHSCT) in France.

At the end of 2017, the Group's employees implemented relaxation sessions on the French site of Rungis. Among the benefits, there are a better stress management, an improvement in productivity or the development of positive thinking. 10% of the total employees in Rungis has already attended to a session.

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.

Moreover, ESI enables its employees to work remotely in numerous countries. For example, France is currently working on a home office charter and the right to disconnect.

3.2.3. Promote diversity and multicultural exchanges

Through the "Global" value of the Group, diversity is emphasized as it allows to enrich the organization of a 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

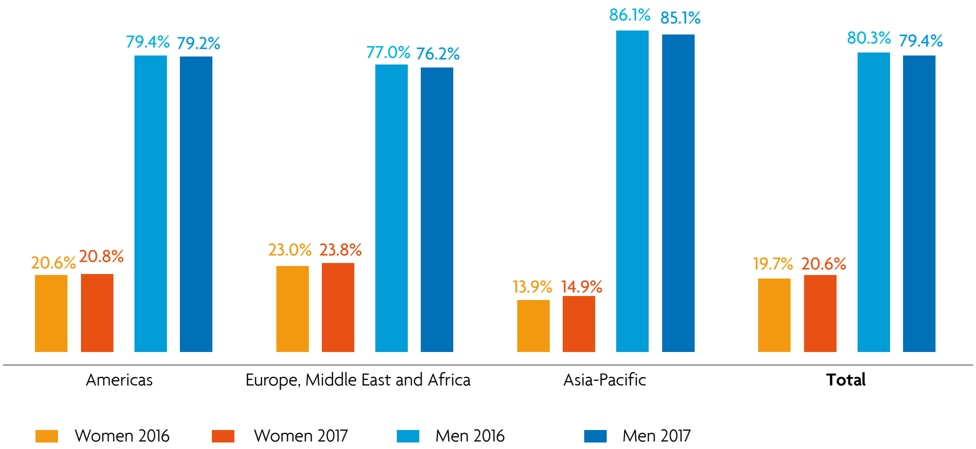
	2016	2017
Europe, Middle East and Africa	56.4%	56.9%
Asia-Pacific	32.5%	32.6%
Americas	11.1%	10.5%

Note: Among the 56.9% of employees located in the Europe, Middle East and Africa region, 55.1% are located in Europe.

EMPLOYEE DISTRIBUTION IN THE MAIN COUNTRIES

	2016	2017
France	24.9%	25.7%
India	19.0%	19.9%
Germany	16.6%	16.6%
United-States	10.3%	9.9%
Japan	6.2%	6.1%
Others	23.0%	21.8%

GENDER BREAKDOWN



The percentage of women among permanent employees was 19.5%, which is relatively low and unchanged from previous years. This low representation is due to the small number of women in engineering schools, which are our main source for recruiting, as well as socio-geographical disparities that can sometimes conduct to a lower rate of women activity.

Nevertheless, our professional HRs are aware of the need to improve women ratio and carefully consider female candidates whenever the Group is hiring. In 2017, 57 women joined the Group, which represents 27% of total new recruits, higher compared to 2016 (25%).

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 14.2% are women, a slight increase compared to 2016 (13.9%).

The Ethics Committee (composed of two women and three men) also ensures that none of the above discrimination is made within the Group (see 3.5.2.).

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 works with Cèdre, for the selective sorting, a 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 have six employee representative bodies in France and one in Vietnam. These employee representatives involved 27 employees who actively participated to meetings in 2017.

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 intranet 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 internal 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, Flash HR News and corporate or product webinars.

The Skype for Business tool is implemented in all subsidiaries and enables employees to easily share information and organize meetings.

Corporate events are also organized to allow the management from different entities to meet and exchange on the Group's strategy. Management meetings are organized twice a year, as well as a Kick Off Meeting dedicated for sales and marketing. The team of Product Development and Engineering organizes once a year an Engineering Management Meeting, a one week seminar where key managers and experts can meet.

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 2017, 4.7% 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. 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 working days or according to a fixed schedule. An employee who is under a working days basis works a defined 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:

- Employees who work on a full-time and on a working days basis work 217 days per year, plus one extra day for France's "national solidarity day";
- For some other employees they work an average of 37-hours per week with 10 days of RTT (day off) per year for a full-time employee.

Employee distribution per activity

	2016	2017
Cost of sales Licensing	9.3%	8.8%
Cost of sales Consulting and Support	21.3%	20.3%
Research and Development	34.4%	36.1%
Sales and Marketing	23.0%	23.4%
General and Administrative	11.9%	11.5%

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;
- Operational marketing;
- Customer support.

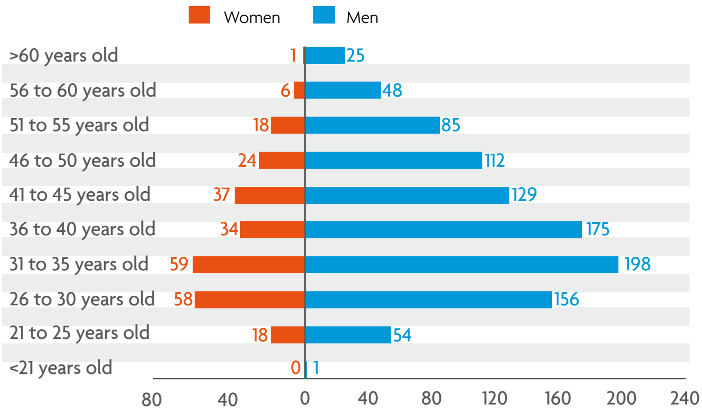
Consulting

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



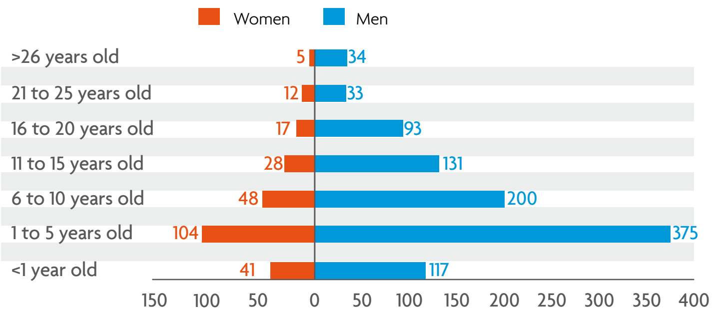
The average age of employees is 38.8 (female employees: 36.9 and male employees: 39.3).

ESI Group is compliant with laws promoting hiring and retaining people regardless of age. As such, 14.8% of employees are aged 50 or more, *i.e.* 183 people worldwide (158 men and 25 women).

Of those aged 50 and older, 68.9% are located in Europe, compared to 21.3% in Americas and 9.8% in Asia.

In addition, 39.8% of Group employees are under 35, which contributes to youth employment overall. In 2017, 74.7% of employees hired were under 35.

Workforce breakdown by length of service



The average length of service in the Group is 7.6 years. This is relatively high for the dynamic sector of technologies and computing (source: Society for Human Resource Management study, 2015).

The average length of service for employees over the age of 35 is 11.1 years.

Employee turnover

Recruitments	2015	2016	2017
EUROPE, MIDDLE EAST AND AFRICA	93	120	144
Apprenticeship/internship	39	29	28
Temporary contracts	6	25	24
Permanent contracts	48	66	92
AMERICAS	31	32(1)	17
Apprenticeship/internship	5	9	6
Temporary contracts		1	
Permanent contracts	26	22(1)	11
ASIA-PACIFIC	58	45	48
Apprenticeship/internship	8	5	12
Temporary contracts	8	10	3
Permanent contracts	42	30	33
GRAND TOTAL	**182**	**197(1)**	**209**

(1) Employees from acquisitions have been integrated in 2016 figures to have a relevant comparison for the turnover rate between 2017 and 2016.

Departures	2015	2016	2017
EUROPE, MIDDLE EAST AND AFRICA	84	82	112
Apprenticeship/internship	37	29	30
Temporary contracts	4	9	10
Permanent contracts	43	44	72
AMERICAS	34	24	22
Apprenticeship/internship	6	8	10
Temporary contracts			1
Permanent contracts	28	16	11
ASIA-PACIFIC	40	37	33
Apprenticeship/internship	1		2
Temporary contracts	14	7	6
Permanent contracts	25	30	25
GRAND TOTAL	**158**	**143**	**167**

In 2017, ESI Group hired 136 employees on permanent contracts, or 65% of recruitments. The eight employees incorporated over the course of the year due to mergers are integrated in the recruitments, which was not the case in previous years.

The departure rate of permanent employees in 2017 was 9.4% [(number of permanent contract departures/total headcount in permanent contract) x 100] compared to 8.0% in 2016.

The 2017 turnover rate in permanent contracts was 10.8% [(Number of permanent contract departures throughout the year N + number of permanent contract recruitments throughout the year N)/2]/total headcount in permanent contracts of the year N] and was 9.3% in 2016.

The formulas have been changed for a more accurate vision.

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:

- Short-term absence of an employee due to illness (less than 20 business days);
- Long term absence due to illness (more than 20 business days);
- 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).

All countries reported their absenteeism data, except Sweden, Italy, Netherlands, Brazil and Russia. 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 (< 20 days)	16%
Long term illness (> 20 days)	16%
Maternity leave	22%
Paternity leave	7%
Parental leave	35%
Leave for personal reasons	4%
TOTAL	**100%**

The absenteeism rate is stable in France at 2.37% in 2017 compared to 2.3% in 2016.

In 2017, absences related to birth, adoption, or raising of one or more children represented 64% 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.

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.

Nine countries out of 14 offer their employees to finance a local healthcare insurance in compliance with regulations and employees well-being. Some countries, such as India, now offer a medical check-up once a year to their employees.

Compensation policy

To attract and retain the best talents on the market, ESI Group offers an attractive compensation and benefits package. This policy aims to recognize employee talents 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 have created an employee savings program.

A corporate mutual fund (called FCPE) 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, 2018, the FCPE owned 31,000 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 the first time. Following the acquisitions of innovative companies in the last years, in new technologies such as Artificial Intelligence, Big Data, or Internet of Things, ESI Group is now able to represent the connected product as used in its operational environment, meaning after its launch on the market. This Hybrid Twin™ targets product predictive performance and maintenance, to optimize repairs, facilitate certification update, and minimize recalls. Once the brand-new product is "right the first time" thanks to its pre-certified Virtual Prototype, it must be kept right when in-Service, and perform right in real life with its connected and operationally assisted Hybrid Twin™.

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 global 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 2017, the global certification applied to 95% of the workforce, up from 88% in 2016.

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 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, ESI China, ESI Italia and ESI Hispania. 2017 also proved to be very successful with the integration of two new entities – ESI ITI (in Germany) and ESI UK (in United-Kingdom) – and for the implementation of the new ISO 9001:2015 standard, and the rollout of the risk-based approach in the different entities of the Group. 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 2017, this represented 43 persons for a total of 86 hours of training.

ESI Group has also undertaken an ISO 27001 certification project, and is implementing an information security management system, which through appropriate risk management will ensure the confidentiality, integrity and availability of information.

3.3.2. Building 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 Group 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 Group is committed to providing quality products and services that meet the needs of its customers. Purchasing decisions are 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.

In 2017, the Group added the environmental criteria to select its suppliers and subcontractors, effective in 2018. ESI Group also takes care not to become dependent on suppliers or subcontractors.

Finally, 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. If an employee makes facilitation payments or influence-peddling in the course of their professional activities, he is likely to be subject to criminal penalties and its contract of employment will be terminated. Moreover, ESI Group is prohibited from directly or indirectly receiving, giving, promising or soliciting facilitation payments or influence-peddling undue benefits with a view to granting, obtaining or maintaining a contract or any other advantage.

In the Ethics Charter, the section on Business Ethics has been reinforced pursuant to the French law "Sapin II", which makes compulsory the prevention of corruption for companies with more than 500 employees and €100 million of revenues. A training for managers will be implemented in the course of the year 2018 to sensitize them on this topic.

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 complies 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.

The internal control mechanism is particularly vigilant about warnings (false invoicing, market price for equivalent services, etc).

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 Group 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, more performing, at a lower cost and with greater reliability. The Group's Virtual Prototyping solutions enable it to satisfy its customers' main needs, and so the consumers' demands, 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 sales of 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, India, Switzerland, China and Spain.

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 2017 consolidated financial 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 applied 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.

By successfully combining advanced manufacturing processes with the most innovative materials, such as composites, ESI's solutions bring customers the following advantages:

- Reduced time-to-market: with ESI Visual-Environment, the Korean group Hwaseung R&A could virtually simulate assembly of the trunk seal and reduce the development time of their products, and thus their time-to-market.
- 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 $300,000 to $500,000 per aircraft per year.

  Recently, the French automotive manufacturer start-up Gazelle Tech has developed a lightweight vehicle (one third of the usual weight) with an energy consumption reduced by half thanks to the use of ESI Virtual Performance Solution. Also, the time to market has been reduced by eliminating physical prototypes.
- Reduced waste associated with prototyping and manufacturing: with ESI Group solutions, Patriot Foundry & Castings, a specialized manufacturer of parts in bronze-, aluminum- and zinc-based alloys, reduced its scrap rate by 98% in casting a gearbox part.
- Improved useful life of products: the creation of a Hybrid Twin™ based on the virtual prototype to recreate the behavior of a windmill in operation and in its environment helps to ensure the maintenance and to reduce its cost (-47%). The predictive maintenance and the repairs optimization allow an increased reliability of windmills.
- 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%.
- Improvement of the security: Boeing was nominated for the Green Cross Safety Innovations Awards for their work with ESI virtual reality software IC.IDO, which helps them to identify and mitigate security risks before the manufacturing of engines.

As such, ESI Group's 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. Furthermore, the new Hybrid Twin™ offer of the Group targets product predictive performance and maintenance, to optimize repairs, facilitate certification update, and minimize recalls.

3.4.3. Limiting the Group's environmental impact

3.4.3.1. Use of resources and measures to reduce consumption

Energy consumption

In 2017, electricity consumption on the Rungis site totaled 644,184 kWh, an average of 4,504.8 kWh per employee. This increase of 51% is partly due to the obsolescence of the building. This is one of the reason which motivated the move of the Rungis office, that will occur in the course of the year 2018 in a HQE certified building. Thus, a better energy consumption management can be possible. On the Ter@tec campus where ESI has been involved since 2012, the installation of the PoD in 2016 (Point of Delivery – a high-density mobile data center that can house up to 3,500 server nodes) increased the energy consumption (+24% in 2017). The energy consumption in the Group's headquarters, located in Paris, decreased by 13.3%. 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 2,579.0 kWh for the sites in Germany, the Czech Republic, India, Tunisia, Spain and China, representing a slight decrease of 3.8% compared to 2016. 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 as the facilities are leased. Energy usage is included in the utility fees, which include factors other than electricity, and is re-evaluated annually. The comparison of energy consumption on the Japanese site is not available this year due to the move of the offices.

Within the 2017 reporting scope, ESI Group uses renewable energy production at its Swiss site, where hydropower is used for electricity. The Swiss office is located in a Minergie-certified building. Minergie is a Swiss association whose objective is to reduce energy consumption in buildings by proposing rational energy consumption and the use of renewable energies.

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, in San Jose in the USA, and also in ESI Software in Germany.

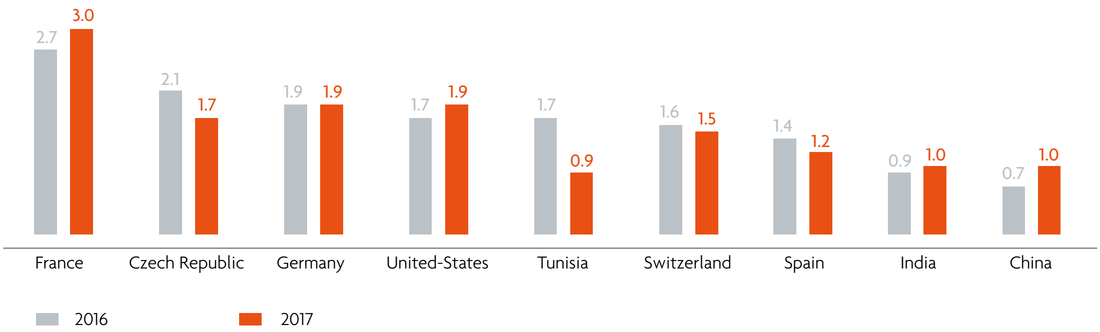
Furthermore, an energy audit has been realized in 2017 on the three German sites of the Group, in Neu-Isenburg, Stuttgart and Dresden. The result shows that the sites are good energy quality.

It should be also noted that the Spanish office in Madrid is part of a LEED (Leadership in Energy and Environmental Design) certification project, led by the owner.

Paper consumption

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 2017 was low and stable with about 1.9 ream of paper used per employee. The paper consumption is higher in France due to the strong presence of support services in this country.

ESI Group also continues 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. The invoices and purchase order processing is done via a tool called Yooz. In addition, SharePoint, a Cloud-based service for electronic document archiving and storage, was installed 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.

Finally, the use of a new local printing and delivery tool, called Gelato, allows subsidiaries to locally order the necessary quantity of documents they need. Ultimately, this tool saves paper by printing on demand, which allows ordering only what is needed and on a local basis.

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, the two sites in India and the Chinese site) water consumption decreased by almost 2% in 2017, with average consumption of 5.3 cubic meters per employee (versus 5.4 cubic meters in 2016).

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, except waste electrical and electronic equipment (WEEE).

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. In 2017, 696 kg of waste were recovered by Cèdre in the French site of Rungis in which 545 kg of papers, equivalent in environmental benefits to 10 saved trees, 16,350 water liters saved and 300 kg of preserved CO_2.

All the German, American, Czech, Japanese and Swiss 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 coordination with the IT departments, is tasked with collecting used electronic equipment. Waste management is then passed on to the local authority of each city.

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 fluorescent tubes are recovered by our various suppliers. Containers are available to staff for this purpose in offices.

Measures to reduce discharges into the air, water and soil

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

Noise pollution and other types of pollution linked to activities

The majority of ESI Group's activities are not a source of noise pollution. The only facilities that generate noise liable to affect the vicinity are data centers, the two main 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.

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). A car policy is also defined in the German site of Neu-Isenberg. 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 systems 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 2017, an average of 116 audio meetings, lasting about 40 minutes on average, were organized within the Group per day using Skype for Business.

Emissions associated with Group employees

In 2017, emissions resulting from business travel by French, American and German (two entities out of three) employees by train and by air totaled 1,687.5 kg per employee, an increase of 26% compared 2016. In 2017, the Group engaged a restructuration and an alignment of its teams, which led to an increase of travels in order to optimize this transformation, and ensure the success of the five-year strategic plan of the Group called "Objective 2020". It should be noted that five members out of eight of the Group Executive Committee are based out of France. The Group also intensified its participation to international events, which led to an increase of travels. 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 2017, 45 employees in France had a company car, along 31 in the Czech Republic, 52 in Germany, and six in Spain. There were no company cars in the United States, India or Tunisia. In Japan and China, only one person had a company car. The granting rate of company cars is 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 173,479 kg or 3,855 kg per company car, a 8.4% increase compared to last year.

Overall, business travel by French employees generated 576.5 metric tons of CO_2 in 2017, a slight increase of 6% per employee.

As for company cars in the Czech Republic, the estimated emissions in 2017 were 99,786.4 kg of CO_2, an average of 3,219 kg per car, a 4% increase compared to 2016. Lastly, for Germany, vehicle emissions fell almost 11%, after a decrease of 9% last year.

Among the measures implemented over the past few years, the adoption of Gelato in the beginning of 2017 helps to avoid 149,000 km, a diminution of 70% of the past shipping distance for the delivery of our documents.

3.5. Serving civil society

Partnerships are an integral part of the Group's 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 the Company, the foundation necessary for balanced and durable growth. For this reason, ESI Group is especially attentive to the following points:

- The innovation in partnerships with the academic and scientific communities;
- The total transparency to all of its stakeholders;
- Meeting the demands of the final consumer;
- Supporting regional development by encouraging local recruitment and partnerships;
- The 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, is also a key issue of CSR. Innovation continually improves production processes and shortens the design period and the time it takes to develop more efficient and more reliable new products.

To remain at the leading edge of innovation, the Group invested 33% of its Licensing revenues in R&D in 2017. 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 (Ile-de-France), Nuclear Valley (Burgundy), Mov'eo (Normandy and Ile-de-France), I-Trans (Nord-Pas-de-Calais and Picardy), iD4CAR (Brittany and Pays de la Loire), Systematic (Ile-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 at 20 km of the Saclay platform in Ile-de-France, alongside the CEA (the atomic and alternative energy commission), a major player in research, development and innovation. Today, ESI Group is involved in several collaborative projects under the leadership of the System X IRT.

ESI Group is also a member of the Executive Committee of the Systematic Paris Region Competitiveness Cluster and of AS Tech Paris Region, two local competitiveness clusters with a global influence, which anime the collaborative research in the Ile-de-France ecosystem, respectively in the digital sector and the aerospace industry.

As a pioneer in innovation in the automotive sector, the ID4CAR cluster has appointed Vincent Chaillou, Chief Operating Officer of ESI Group, as the new President of ID4CAR in February 2018, after a regular attendance to its Board of Directors since 2012. The aim of this cluster is to increase the competitiveness of the sustainable vehicles and transportation sector in western France through innovation.

ESI is also 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 Ille-et-Vilaine and Morbihan (UIMM 35-56), for the purpose of stimulating the automotive industry in Brittany around PSA Rennes, which has announced its strategic plan for the coming years. ESI participates in the 3DMat innovation platform specifically for developing a digital simulation and Virtual Prototyping channel for new multi-material and composite architectures, with priority given to the automotive industry.

Again in the transportation sector, ESI is an active member of IRT Railenium whose main mission is to lengthen the lifecycle of railways 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 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 manufacturing of large 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, several 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,* a national initiative, and contributes, on this basis, to the work of the *Alliance pour l'Industrie du Futur.* Vincent Chaillou is the representative of the TECH IN professional association of software publishers on the Board of Directors of the *Alliance Industrie du Futur* since August 2015.

Thereby, ESI contributes to several working groups that focus, in particular, on developing and promoting key technologies of the Industry 4.0.

ESI Group has coordinated the "Promotion of Existing Technological Supply" group since its creation. In this regard, the Group is working with its peers to structure and circulate the French supply, in particular by jointly creating with the French Chamber of Commerce and Industry the first national directory of Suppliers of Solutions for the Industry of the Future (*Offreurs de Solutions Industrie du Futur* – OIF). This tool will boost the technological supply and its deployment within the industry both in France and internationally. Through its action in this working group, ESI Group has also contributed to launching the Créative Industrie trademark in partnership with Business France. ESI's IC.IDO virtual reality solution was selected to illustrate the Value Chain Digitalization Technologies trademark when it was launched by the current President of the Republic of France, Emmanuel Macron, at the Hannover Messe in April 2016.

ESI is also a player of the Alliance for the industry of the future for the development of key technologies for the industrial transformation. Thus, ESI is the top-tier partner of the SOFIA program aiming to develop the additive manufacturing sector in France *(Solutions pour la Fabrication Industrielle Additive métallique)*. The additive manufacturing, a numerical process, gives an essential role to Virtual Prototyping, which positions naturally ESI as a key player of this sector.

Regionally, ESI Group is part of the Aerocampus Aquitaine Cluster which is the first European expert's network that answers the training needs of companies in the aeronautic and aerospace sectors. The Aerocampus training center uses ESI IC.IDO, ESI's virtual reality solution, together with the Institute of Aeronautic Maintenance (IMA).

ESI Group has worked with the Nouvelle-Aquitaine Regional Council to create the "SMART 4D" simulation community within the Digital Aquitaine cluster. 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 community dedicated to simulation, HPC, virtual prototyping and immersive 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, or Boeing and Airbus in the aeronautic industry.

By building strong relations with large industrial 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 disseminated to all employees and is available in six languages on the Group's internal and external websites.

A new version of the Charter will be communicate to all employees in the course of the first 2018 semester. This version strengthens the Group's position on corruption, facilitation payment and other frauds, in the context of the French law "Sapin II".

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 implementation 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 regularly, at least once a year, to discuss ethics issues and come up with corrective measures, if necessary.

3.6. Report of the inspecting organization

Year ended January 31, 2018

To the shareholders,

Following the request made to us by ESI Group 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, 2018 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.

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.

Attendance certificate

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 between March 23, 2018 and May 14, 2018 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 four 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] 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 60% of the consolidated value of the numerical indicators in the employment portion and 50% 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.

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 16, 2018
Finexfi
Isabelle Lhoste
Partner

(1) Companies selected for the tests: Rungis, Germany and Czech Republic sites for the environmental component and France sites for the social component.

4 MANAGEMENT REPORT

Fiscal year 2017 (ended January 31, 2018)

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 July 18, 2018. This report accounts for the Company's activities during the 2017 fiscal year (ended January 31, 2018), 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 and opportunities."

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, stock options and free shares grant plans, and the transactions on the Company's shares are included in Chapter 7 of this Document.

4.1. Business activities during the 2017 fiscal year

4.1.1. Highlights of the 2017 fiscal year

Financial data

The operational performance over the year is significantly impacted by the transformative actions implemented to successfully deploy the new value proposition of the Group that addresses the emerging needs of our clients. This proposition is tied to the Outcome Economy and the Industry 4.0, drivers of unprecedented and accelerated changes in the economic and competitive context for manufacturing industries. It positions the Group as a catalyst and solution integrator of our customers' digital transformation as they apply our multi-domain Virtual Prototyping solutions.

To consolidate our solutions, adapt our sales strategy and build methodological support teams for customers, we have implemented an active investment policy and a deep operational reorganization. Our disruptive solutions enable our customers to reduce time-to-market for innovative and more performant products in operation, targeting a "zero physical tests" methodology.

Structural changes

On February 24, 2017, ESI Group acquired 100% of the capital of Scilab Enterprises.

The Group also bought out minority interests of ESI Software Germany, increasing its shareholding to 100%.

2017, a year of transformation

Continued integration of new technologies as part of ESI's Product Performance Lifecycle™ approach

The acquisition in early 2017 of Scilab, publisher of an open source numerical analysis software and recognized internationally by a community of over one million users, constitutes a powerful vector for increased visibility and democratization of the Group's approach. By consolidating its position in the pre-project design phase, the segment on which Scilab is focused, ESI seeks to harness its Hybrid Twin™ solution to provide manufacturing businesses with complete control over their products entire lifecycle, including anticipation of wear and tear for predictive maintenance and repairs, beyond design, manufacturing and regulatory certification of the product "as brand new".

Continued restructuring of the organization in line with the new value proposition

A number of significant milestones in the Group's "Objective 2020" five-year plan were achieved in 2017. The plan aims to align the business and executive management around the Group's new value proposition underpinned by the Product Performance Lifecycle™ concept and the Hybrid Twin™ solution. The management organization is now re-structured around three business pillars, namely: Engineering (design and development of industrial products), Manufacturing (fabrication of products) and In-Service (usage, piloting and maintenance of products from launch to repair and ultimate withdrawal), in line with the demands of Industry 4.0, the Smart Factory and the Outcome Economy.

This fundamental transformation, which has impacted our short-term sales performance, aims to bring the sales force in line with the operational support requirements of industrial clients via a regional local coordination structure based around customer account managers focused on value selling, and technical sales engineers to foster accelerated technical and methodological change.

Strengthening of the Group Executive Committee

To provide effective support for this operational governance strategy, the Group has appointed Angelita Reyes as Group Human Resources Director and member of the Group Executive Committee.

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)	2017	2016	Variation at actual currency rate	Variation at constant currency rate
Total sales	**135.3**	**140.6**	**-3.8%**	**-2.0%**
Licenses	105.7	108.3	-2.4%	-0.5%
Services	29.5	32.2	-8.4%	-6.9%
Gross margin	**97.8**	**103.1**	**-5.1%**	**-3.1%**
% of sales	72.3%	73.3%		
EBITDA[(1)]	**12.1**	**18.3**	**-33.7%**	**-28.3%**
% of sales	9.0%	13.0%		
Current operating profit	**9.2**	**15.4**	**-40.2%**	**-34.0%**
% of sales	6.8%	10.9%		
EBIT	**8.1**	**13.7**	**-41.1%**	**-34.9%**
% of sales	6.0%	9.8%		
Net profit (Group share)	**2.4**	**7.5**	**-68.4%**	**-60.5%**
% of sales	1.8%	5.4%		

(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 evolution

Full-year sales declined by 2.0% to €135.3 million at constant exchange rates. There was a negative Forex impact over the year of €2.5 million, mainly reflecting the depreciation of the Japanese yen – and to a lesser extent the US dollar.

The product mix shifted towards Licenses, which contributed 78% of total sales, compared with 77% last year.

Revenue from Licenses declined by 2.4% year-on-year to €105.7 million but remained stable at constant exchange rates. A lower share of revenue from Paid-Up licenses ("PUL") in 2017 represents a stronger base in future contract renewals. The performance of New Business was stable at constant exchange rates at €17.8 million, compared to €17.9 million for 2016 (€17.6 million at constant exchange rates).

Services revenues declined by 8.4% to €29.5 million for the year in the wake of the exceptional performance in Japan in 2016.

ESI's geographic sales mix reflects the slight drop in business in Asia which now contributes 38% of total revenues against 39% last year. The contribution of the Americas and Europe remained stable over the year at 16% and 46% of sales, respectively.

Gross margin evolution

Gross margin came in at 72.3%, compared to 73.3% in 2016, showing a decrease attributable to a change in the services delivered. In 2016 there were several one-off projects in Japan that had a positive impact on margin. Also, the volume of Special Projects increased in 2017. These projects are at the core of the innovation using new technologies developed by the Group and have the objectives of co-creation with customers and intellectual property development. Gross margin for Licenses remained stable year on year at 85%.

Continued investments and impact of transformation plan actions

Within the scope of the strategic transformation plan, investments in R&D were maintained at a high level and grew 6.7% on the year to €34.9 million (€32.7 million in 2016). These considerable investments reflect the efforts undertaken to develop the Group's new disruptive technology offering underpinned by the Hybrid Twin™ approach. These investments represented 33.0% of Licensing revenue, compared to 30.2% in 2016. Once the French R&D tax credit and capitalized development costs are taken into account, total R&D costs recorded in the P&L amounted to €28.7 million, an increase of 6.5%.

The adaptation of sales and marketing strategy helped to enhance the sales force and the visibility of ESI Group. The process of bringing the sales force into line with our value proposition and the operational support requirements of customer account managers and technical sales engineers led to changes at local level and this impacted sales performance for the year. S&M costs, which totaled €41.4 million (*vs.* €41.8 million in 2016), *i.e.,* 30.6% of revenues, do not properly reflect these investments as they include the reversal of provisions for doubtful receivables, particularly in China.

G&A costs amounted to €18.5 million (compared to €18.9 million in 2016) and represented 13.7% of revenues. Expenditure was contained while ensuring that the Group has a solid distribution network and larger offices for local support teams specialized in new technologies to develop and grow.

Impact on profitability indicators

EBITDA fell from €18.3 million to €12.1 million, giving an EBITDA margin of 9.0% for the year, compared with 13.0% in 2016. This drop is a result of the transformation plan which weighed on growth, and increased investments in R&D.

Current operating profit was €9.2 million, representing a current operating margin of 6.8%, or €6.2 million less than last year.

EBIT dropped €5.6 million to €8.1 million, giving an EBIT margin of 6.0%, compared to 9.8% in 2016.

The Financial Result was a net financial expense of €2.7 million, compared to a financial expense of €2.1 million in 2016, due to Forex losses following the depreciation of the Japanese yen against the euro.

Attributable Net Profit came out at €2.4 million in 2017, giving a net margin of 1.8%.

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 increased by €5 million. This evolution is explained by the net impact of capitalization of development costs which impacted fixed assets by €3.2 million and the factoring of French R&D tax credit for 2016 which increased non current assets by €2.4 million;
- Financial debts decreased by €4.3 million, mainly due to the annual repayment of the syndicated loan (€4.5 million). In addition, €6 million of the revolving line of credit has been used at closing date, compared to €8 million last year, and the Group contracted a new factoring debt for its 2016 French R&D tax credit for €2.4 million.

Equity stood at €101.5 million, up due to the net profit for the year.

Net financial debt totaled €31.9 million. Gearing (net financial debt to shareholders' equity) represents 31.4% of equity, *versus* 37.6% at January 31, 2017.

Cash and cash equivalents stood at €15.7 million.

At January 31, 2018, ESI Group also held 6.8% of its equity in treasury shares.

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.

Interest rate 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

Cash position at January 31, 2018 amounted to €15.7 million. At January 31, 2017, it amounted to €14.1 million, made up of cash assets of €14.5 million less €0.4 million bank overdraft. The €+1.7 million increase over FY 2017 can be explained by the flows listed below.

Operating cash flow came to €4.7 million compared to €10.5 million for the previous fiscal year. This change of €-5.8 million is primarily due to:

- A decrease in EBITDA of €-6.2 million;
- An impact of the financial result on cash flows of €-0.8 million compared to €-1.6 million last year, which is an improvement of €+0.8 million. Interest paid on loans remained stable at €-1 million, moreover, foreign currency transactions generated a profit of €+0.2 million against a loss of €-0.6 million in 2016;
- An increase of €-0.2 million in taxes paid.

Variation in working capital requirement (WCR) amounts to €+7.4 million, which is an increase of €+8.9 million compared to previous year-end resulting mainly from increased collection from customers. Net cash from operating activities stands at €12.1 million, which is a €3.0 million improvement compared to 2016.

Current capital expenditures paid by the Company amount to €3.6 million, compared to €2.3 million for previous fiscal year. ESI has made investments in new premises, particularly in Japan.

The main financing flows were related to the yearly reimbursement of the syndicated loan for €-4.5 million. Financial debts increased due to factoring of the French R&D tax credit for 2016 for €2.4 million. The use of revolving credit decreased to €6.0 million against €8.0 million at the end of 2016. Overall, financial debts decreased by €4.3 million.

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4.1.3. Research and development

4.1.3.1. Research and development costs

Research and development investments are recorded as soon as they are incurred. These costs amounted to €34.9 million in 2017, an increase of 6.7% compared to the previous year. These considerable investments reflect the efforts undertaken to develop the Group's new disruptive technology offering underpinned by the Hybrid Twin™ approach.

The capitalization of development costs had a €+3.2 million impact on the income statement in 2017.

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 (Analysis 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 expand the installed base or winning over new customers with existing products;
- New products with a view to encourage 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);
- A 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

4.1.4.1. ESI Group annual financial statements

ESI Group is the parent company of the Group; therefore, it owns and/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 licensing 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 research and development work.

The operating result for 2017 is a profit of €1.3 million compared to a profit of €3.2 million for the previous year.

This decrease of €3.2 million is explained in the table below:

(in € thousands)	2017	2016	Change
Operating profit	**1,296**	**3,192**	**(1,896)**
Decrease in revenue			(429)
Decrease in inventory			(1,044)
Increase in net impact of capitalization of development costs (capitalization and amortization)			513
Decrease in external expenses			467
Increase in salaries and social charges			(867)
Change in provisions for contingencies and risks (operating result)			(496)
Other change			(40)
TOTAL CHANGE			**(1,896)**

The financial result is a profit of €2 million compared to a loss of €2.5 million in 2016. The financial result can be broken down as follows:

(in € thousands)	January 31, 2018	January 31, 2017
Realized foreign exchange currency result	(544)	(230)
Unrealized foreign exchange currency result		(484)
Interest on loans	(840)	(868)
Provision for depreciation of investments	(456)	(827)
Dividend ESI Japan Ltd	3,921	0
Other financial income (expenses)	(77)	(83)
TOTAL VARIATION	**2,004**	**(2,492)**

Current income before tax is a profit of €3.3 million, compared to €0.7 million in 2016.

The Company has also recorded €0.02 million of exceptional loss.

The Company recognizes a profit on income tax of €2.2 million, compared to €1.7 million in 2016, which corresponds to corporate tax expense of €0.5 million, to French R&D tax credit of €2.6 million and to CICE tax credit of €0.2 million.

Net profit stands finally at €5.5 million, compared to €1.6 million in 2016.

Equity rose by €6.4 million, from €91.2 to €97.6 million due to:

- Net income (+€5.5 million);
- Capital increases after the exercise of stock options (€+0.6 million);
- Changes in regulated provisions (€+0.3 million).

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

- Fixed assets increased by €2.8 million, from €121.9 million to €124.7 million, due mainly to an increase in capitalized development costs for €4.3 million and a decrease in receivables related to equity investments for €1.8 million (exchange rate effect);
- Financial debt decreased by €6.9 million, from €46.7 million to €39.8 million. This corresponds to the annual syndicated debt repayment of €4.5 million and to a lower use for €2.0 million of the revolving credit line.

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, 2018, the balance of ESI Group's liabilities to its vendors breaks down as follows:

Invoices Issued (Customers) *(in € thousands)* Installment payment	0 day (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total (1 day and more)
Number of related invoices	88	21	18	26	705	770
Total amount of the invoices (all taxes includes)	32,005	1,643	1,074	2,009	14,189	18,915
Percentage based on total of revenue of the year (all taxes included)	37.04%	1.90%	1.24%	2.32%	16.42%	21.89%
Number of invoices excluded related to doubtful receivables or not yet issued						
Total amount of invoices excluded related to doubtful receivables or not yet issued	5,887				2,430	2,430

Invoices Received (Suppliers) *(in € thousands)* Installment payment	0 day (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total (1 day and more)
Number of related invoices	65	102	24	36	823	985
Total amount of the invoices (all taxes includes)	4,065	734	1,010	1,266	17,322	20,333
Percentage based on total of expenses of the year (all taxes included)	6.38%	1.15%	1.59%	1.99%	27.17%	31.90%
Number of invoices excluded that are related to bad debts or debts not invoiced or recorded						
Total amount of invoices excluded that are related to bad debts or debts not invoiced or recorded	13,096					

Reference terms of payment used are contractual terms.

Terms greater than 91 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 financial statements.

4.1.4.2. Allocation of profits

Situation at January 31, 2018:

- Net profit for the year: €5,546,967.47;
- Profit carried forward: €32,548,508.07;
- Total to be allocated: €5,546,967.47.

Allocation:

- €7,335 to the legal reserve;
- €5,539,632.47 to profit carried forward.

Following this allocation, the legal reserve stands at €1,804,932.60, representing 10% of share capital. Profit carried forward stands at €38,088,140.54.

4.2. Outlook

4.2.1. Subsequent events

In March 2018, ESI announced the promotion of Christian Matzen as Executive Vice-President "Sales and Marketing" (EVP S&M), GEC member, and the promotion of Dominique Lefebvre as Director of Edition Product Operations and its integration in the GEC. These executive corporate management changes followed the appointment of Angelita Reyes as the Group Human Resources Director at the end of 2017. The evolution of the Group Executive Committee aims at aligning the strategic vision with the new value proposition, founded on the Hybrid Twin™.

4.2.2. Business trends

2017 was a year of transformation that featured major strategic investments and a reorganization around three pillars. It represented an essential milestone, before a better growth momentum as early as 2018. The impact of this transformation is based on the value creation and the credibility of our solutions, clearly confirmed by our relations with our innovative customers and partners.

Structuring ESI's offer development around the three pillars of our core activities will enable it to leverage all of the strength of its two historic core businesses – Engineering and Manufacturing – in order to provide industrial clients with Virtual Prototyping solutions for developing and manufacturing industrial products. The French vehicle manufacturer startup Gazelle Tech is a pioneering high potential example. It succeeded in developing its concept of "sustainable mobility for all" with ESI's Integral Virtual Prototyping solutions, by designing, certifying and producing, in less than three years, a vehicle which is intended for the emerging countries market.

Throughout the year 2017, ESI also strengthened its collaboration with AP&T, the hot forming systems builder. Initially a supplier of individual tooling software for virtual testing, ESI has progressively emerged as a strategic partner for AP&T, enabling the Company to meet Industry 4.0 challenges for the manufacturing of its smart assembly lines with an Integral Virtual Prototyping solution; chaining the virtual tests that now replicate each individual step in the manufacturing process.

The third core activity – In-Service – couples Big Data and Artificial Intelligence to complement the Virtual Prototype with collected data in operation (IoT) and enriched by Machine Learning. This pillar is the catalyst for the new value proposition. This sets ESI well apart based on its ability to partner with clients throughout a product's entire lifecycle, including in its "as used" state after it has been put on the market.

At this stage of its development, thanks to the high growth potential of its market, ESI Group has the essential assets it needs to successfully realize its vision and the adoption of its new value proposition.

4.3. Internal control and risk management procedures

4.3.1. 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 a 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 2017 Board Retreat took place in August, and the 2018 meeting is planned in July.

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 the implementation of the internal control policy on its financial level by:

- Establishing the operating procedures for the internal control system;
- Holding meetings with 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,
  - Establishing the financial statements of each entity in the Group at the end of each period,
  - Drawing up the Group's consolidated financial statements,
  - Ensuring compliance with legal, tax and labor obligations;
- Financial Control, in charge of:
  - Preparing and monitoring the budget,
  - Issuing periodic reports,
  - Internal control on both an operational and financial level;
- Cash management, in charge of:
  - Managing cash flows,
  - Project financing
  - Hedging currency and interest rate risks;
- Information Systems Department (ISD).

b) 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: with the global amplification of competencies of employees to develop talents, encourage leadership and collaborative management and with the promotion of ESI core values to leverage the One-ESI culture;
- Internal processes: with a global Quality management to facilitate harmonization, develop a global risk management framework and ensure simplification of processes, that improve performance and effectiveness;
- Clients: meeting the business challenges of customer as they address the expectations of the Outcome Economy and the Industry 4.0, focusing on the Product Performance Lifecycle™ through an account management policy and a value selling approach of our solutions;
- Profitability: an internal organization by Business Pillars (Engineering, Manufacturing, In-Service) of both EO and FO Business Units that strengthens the synergies between departments, targeting continual performance improvement in growth, profitability and sustainability.

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 to 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.

4.3.2. 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 accounting firms handle daily bookkeeping under the management of the regional financial manager.

In addition to this network, a central team of six financial controllers is dedicated to three divisions of the Group, namely Edition, 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 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 published on a quarterly basis, whereas full financial statements are 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 statements follows procedures to centralize the accounting and financial data provided by each entity within 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;
- 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 some technical issues;
- 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 of the year.

Financial Control 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:

- Backlog in the Licensing and Service activities;
- Production of the Services activity;
- Evolution of in headcount and average personnel costs;
- The cash position and cash forecast until the end of the current year and for next year at year-end.

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 recognizing revenues and ensuring:

- The consistency between actual revenues and contractual data as regards the Licensing revenue;
- The accuracy of billing information;
- The completeness of the services invoiced, primarily for the Services revenue.

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 monthly 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.

4.3.3. Risk management

Process management and ISO 9001:2015 certification

ESI Group has been ISO 9001-certified since the 2000's and has always oriented its Quality approach to develop a worldwide certification for the entire Group, thereby aiming to align its business activities under the same operational criteria for all its subsidiaries. This approach has recently been supplemented by the transition to the 2015 version, which is an additional asset to strengthen process management and facilitate the implementation of risk management, thereby ensuring long term and effective prevention.

Insurance and risk coverage – general information

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

For its foreign subsidiaries, damages that would fall under operational civil liability coverage, including "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.

4.4. Table summarizing the results of the past five fiscal years

Figures presented here below are extracted from ESI Group annual financial statements.

Balance sheet date	01/31/2018	01/31/2017	01/31/2016	01/31/2015	01/31/2014
Duration of fiscal year *(months)*	12	12	12	12	12
CAPITAL AT BALANCE SHEET DATE					
Share capital	18,049,326	17,975,976	17,865,216	17,845,266	17,806,896
Number of shares					
• ordinary shares	6,016,442	5,991,992	5,955,072	5,948,422	5,935,632
• preference shares					
Maximum number of shares to be created					
• via convertible bonds					
• via subscription rights	107,528	175,733	207,080	159,095	178,910
OPERATIONS AND RESULTS					
Revenue (excl. tax)	83,883,977	84,313,214	79,156,886	68,487,405	65,743,553
Earnings before tax, employee profit-sharing, allowances for amortization and provisions	31,555,313	28,651,433	30,414,474	25,228,586	25,909,345
Income tax	(2,228,379)	(1,669,380)	(2,205,946)	(1,865,499)	(1,427,906)
Employee profit-sharing		15,967			
Allowances for amortization and provisions	28,762,466	28,688,439	19,916,428	26,012,821	20,703,306
Net income	5,546,976	1,632,374	3,931,981	1,081,264	6,633,945
Distributed earnings					
EARNINGS PER SHARE					
Earnings after tax and employee profit-sharing, before allowances for amortization and provisions	5.70	5.06	4.00	4.55	4.61
Earnings after tax, employee profit-sharing, allowances for amortization and provisions	0.92	0.27	0.66	0.18	1.12
Dividend					
PERSONNEL					
Average headcount	243	234	217	212	202
Payroll	14,766,952	14,159,959	13,203,318	12,446,007	12,200,768
Amounts paid in benefits (social security, social welfare, etc.)	6,971,314	6,711,622	6,295,088	5,772,990	5,652,434

5 FINANCIAL STATEMENTS

5.1. Consolidated financial statements

5.1.1. Consolidated income statement

(in € thousands)	Note	January 31, 2018	January 31, 2017
Licenses and maintenance		105,748	108,316
Consulting		29,100	31,177
Other		429	1,058
REVENUE	4.1	135,277	140,551
Cost of sales		(37,487)	(37,491)
Research and development costs	6.1.2	(28,698)	(26,942)
Selling and marketing expenses		(41,433)	(41,842)
General and administrative expenses		(18,471)	(18,912)
CURRENT OPERATING RESULT		9,188	15,365
Other operating income and expenses	3.2.2	(1,108)	(1,644)
INCOME FROM OPERATIONS		8,080	13,721
FINANCIAL RESULT	7.2	(2,718)	(2,115)
Share of profit of associates		216	89
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS		5,578	11,695
Provision for income tax	8.1	(3,197)	(3,992)
NET INCOME BEFORE MINORITY INTERESTS		2,381	7,703
Minority interests		6	180
NET INCOME (GROUP SHARE)		**2,375**	**7,523**
Earnings per share *(in €)*	9.3	0.42	1.36
Diluted earnings per share *(in €)*	9.3	0.42	1.35

Statement of comprehensive income

(in € thousands)	January 31, 2018	January 31, 2017
NET INCOME BEFORE MINORITY INTERESTS	2,381	7,703
Other comprehensive income recycled to income		
Change in the fair value of hedging instruments	(1)	(8)
Translation differences	(1,544)	27
Other comprehensive income (loss) not recycled to income		
Actuarial gains and losses	(214)	(481)
INCOME AND EXPENSES RECORDED DIRECTLY IN EQUITY	(1,759)	(462)
COMPREHENSIVE INCOME	**622**	**7,241**
Attributable to Group equity holders	671	7,064
Attributable to minority interests	(49)	178

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

5.1.2. Consolidated balance sheet

Assets

(in € thousands)	Note	January 31, 2018	January 31, 2017
ASSETS			
NON-CURRENT ASSETS		127,598	122,794
Goodwill	3.2	41,026	40,810
Intangible assets	6.1	59,869	57,830
Property, plant and equipment	6.2	4,877	4,440
Investment in associates		960	890
Deferred tax assets	8.2	10,738	10,901
Other non-current assets	10.1.1	10,015	7,900
Cash-flow hedging instruments	7.1.4	113	22
CURRENT ASSETS		94,641	104,921
Trade receivables	4.2	62,924	74,064
Other current receivables	10.1.2	11,954	12,273
Prepaid expenses	10.1.3	4,043	4,115
Cash and cash equivalents	7.1.3	15,720	14,470
TOTAL ASSETS		**222,239**	**227,715**

LIABILITIES			
EQUITY		101,482	99,488
Equity (Group share)	**9.1**	**100,638**	**98,475**
Capital		18,049	17,976
Additional paid-in capital		25,782	25,218
Reserves and retained earnings		54,082	45,915
Net income (loss)		2,375	7,523
Translation differences		349	1,843
Minority interests		**844**	**1,013**
NON-CURRENT LIABILITIES		47,645	48,766
Long term share of financial debt	7.1.2	34,089	36,031
Provision for employee benefits	5.3	8,798	8,472
Deferred tax liabilities	8.2	3,737	2,963
Cash-flow hedging instruments	7.1.4	36	53
Other long term debt		985	1,247
CURRENT LIABILITIES		73,112	79,461
Short-term share of financial debt	7.1.2	13,464	15,805
Trade payables		9,968	10,895
Accrued compensation; taxes and others short-term liabilities	10.2.1	26,493	29,329
Provisions for contingencies, risks and disputes	10.2.2	591	1,042
Deferred income	4.3	22,596	22,389
TOTAL LIABILITIES		**227,239**	**227,715**

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

1 2 3 4 5 6 7 8

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, 2016	5,955,072	17,865	24,938	46,212	1,827	90,842	884	91,727
Change in fair value of hedging instruments				(8)		(8)		(8)
Translation differences					25	25	2	27
Actuarial gains and losses				(476)		(476)	(4)	(481)
Income and expenses recognized directly in equity				**(485)**	**25**	**(459)**	**(2)**	**(462)**
Net income				7,523		7,523	180	7,703
COMPREHENSIVE INCOME				7,039	25	7,064	178	7,241
Proceeds from issue of shares	36,920	111	280			391		391
Treasury shares				(315)		(315)		(315)
Share-based payments				333		333		333
Transactions with non-controlling interests				169	(9)	160	(49)	111
AT JANUARY 31, 2017	5,991,992	17,976	25,218	53,438	1,843	98,475	1,013	99,488
Change in fair value of hedging instruments				(1)		(1)		(1)
Translation differences					(1,494)	(1,494)	(50)	(1,544)
Actuarial gains and losses				(209)		(209)	(5)	(214)
Income and expenses recognized directly in equity				**(210)**	**(1 494)**	**(1,704)**	**(55)**	**(1,759)**
Net income				2,375		2,375	6	2,381
COMPREHENSIVE INCOME				2,165	(1,494)	671	(49)	622
Proceeds from issue of shares	24,450	73	563			636		636
Treasury shares				404		404		404
Share-based payments				499		499		499
Transactions with non-controlling interests				191		191	(121)	70
Other movements				(237)		(237)	1	(236)
AT JANUARY 31, 2018	**6,016,442**	**18,049**	**25,782**	**56,460**	**349**	**100,638**	**844**	**101,483**

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

5.1.4. Consolidated statement of cash flows

(in € thousands)	January 31, 2018	January 31, 2017
Net income before minority interests	**2,381**	**7,703**
Share of profit of associates	(216)	(89)
Amortization and provisions	3,905	4,574
Net impact of capitalization of research & development costs	(3,216)	(2,832)
Income taxes (current and deferred)	3,197	3,992
Income taxes paid	(3,492)	(3,243)
Unrealized financial gains and losses	1,497	(60)
Share-based payment transactions	499	333
Gains (losses) on sales of assets	65	130
OPERATING CASH FLOW	4,620	10,509
Trade receivables	8,261	(6,649)
Trade payables	(837)	2,949
Other receivables and other liabilities[2]	9	2,198
Change in working capital requirement	7,433	**(1,502)**
NET CASH FROM OPERATING ACTIVITIES	12,053	9,007
Purchase of intangible assets	(512)	(528)
Purchase of property, plant and equipment	(3,067)	(2,201)
Proceeds from the sale of assets	-	-
Acquisition of subsidiaries, net of cash acquired	(566)	(4,361)
Other investment operations[2]	(2,382)	(3,566)
NET CASH USED FOR INVESTING ACTIVITIES	(6,527)	(10,656)
Proceeds from loans[2]	11,409	19,891
Repayment of borrowings	(15,392)	(14,775)
Proceeds from issue of shares	636	391
Purchase and proceeds from disposal of treasury shares	(146)	(315)
Dividends paid	(121)	-
NET CASH USED FROM FINANCING ACTIVITIES	(3,615)	5,193
Effect of exchange rate changes on cash and cash equivalents	(243)	186
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,669**	**3,729**
Opening cash position[1]	14,056	10,327
Closing cash position[1]	15,725	14,056
NET CHANGE IN CASH AND CASH EQUIVALENTS	**1,669**	**3,729**

(1) Opening cash position at January 31, 2017 comprised €14.47 million of cash and cash equivalents in assets less €0.414 million in bank overdrafts in liabilities. Closing cash position at January 31, 2018 corresponds to cash and cash equivalents on the assets side of the balance sheet. There is no bank overdraft.
(2) Refer to note 10.1.1.

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

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, FY 2017 ended on January 31, 2018.

Financial statements are presented in thousands of euros. The 2017 financial statements were approved by the Board of Directors on April 17, 2018 and will be submitted to the General Meeting of July 18, 2018 for approval.

Note 1.2. Accounting standards applied

The consolidated financial statements at January 31, 2018 were prepared in accordance with the IFRS standards, as approved by the European Union at January 31, 2018. These standards are available on the European Union website.

Moreover, consolidated financial statements have been prepared in accordance with the historical cost method, with some exceptions such as financial assets and liabilities booked at fair value.

Note 1.3. New IFRS standards and interpretations

New standards, amendments and interpretations effective in the European Union and mandatory for fiscal years beginning on or after February 1, 2017

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 12 – Income Taxes;
- Amendments to IAS 7 – Disclosure Initiatives;
- Amendments to IAS 27 – Equity Method in Separate Financial Statements.

Application of new standards prior to their mandatory effective date

The Group did not opt for early application of standards and interpretations not mandatory as of February 1, 2017, 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;
- IFRS 16 – Leases applicable to fiscal years beginning on or after January 1, 2018.

Regarding IFRS 15, the main focus area for ESI is the recognition method of revenue related to licensing activity. The Group finalised the analysis of the impact of the new standards and concluded there will be no change in revenue recognition method applied until now, as the latter already met principles of the new standards.

The Group expects IFRS 9 to have a limited impact.

The impact of IFRS 16 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 February 2017, Group acquired 100% of the capital of the French company Scilab Enterprises. This acquisition was financed by treasury shares.

The Group also repurchased minority interests of several entities, particularly concerning ESI Software Germany and ESI Services Tunisia, of which the Group holds 100% of the capital at January 31, 2018.

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. As defined by IAS 27, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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, 2018 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 different line from Other Comprehensive Income.

Transactions and balances in foreign currencies

At the closing date, monetary assets and liabilities denominated in a 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 which can be based on past experience.

The discount rate applied as of January 31, 2018 is the Group's weighted average cost of capital (WACC) adjusted with a risk premium. It stands at 12.7% compared to 11.4% at January 31, 2017.

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, 2018 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, 2017	Increase	Decrease	Foreign exchange gain/loss	January 31, 2018
Gross values	40,810	925		(709)	41,026
TOTAL NET VALUES	**40,810**	**925**		**(709)**	**41,026**

Acquisition of Scilab Enterprises

In February 2017, ESI Group acquired 100% of the capital of Scilab Enterprises. The initial purchase price amounts to €550 thousand and has been paid in treasury shares and there may be an additional price up to €250 thousand. The difference between the estimated total purchase price and the net asset value at the acquisition date (negative of €219 thousand), has been fully affected to goodwill during the final allocation of the purchase price.

Follow-up on 2016 acquisitions

Acquisition of Mineset Inc.

In February 2016, ESI Group acquired a 100% interest in the US-based company Mineset Inc., specialized in machine learning. The definitive allocation of the acquisition price of USD4.5 million is the same as the preliminary allocation as of January 31, 2017.

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

3.2.2. Non-recurring result

Other operating income and expenses are mostly composed of amortization costs related to intangible assets acquired as part of a business combination.

(in € thousands)	January 31, 2018	January 31, 2017
Amortization of acquired intangibles assets	(1,076)	(1,470)
Acquisition costs	(36)	(195)
Other external expenses and income	4	21
TOTAL OPERATING INCOME AND EXPENSES	**(1,108)**	**(1,644)**

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 Scilab Enterprises.

Note 3.4. List of entities in the scope of consolidation

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

			% of capital held	
Subsidiaries	Date of creation or acquisition	Subsidiary head office	January 31, 2018	January 31, 2017
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	Saint-Sulpice, 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	100%	90%
Pacific Mindware Engineering Private Limited	December 2008	Pune, India	100%	100%
ESI Services TUNISIA	April 2009	Tunis, Tunisia	95%	95%
ESI Group Beijing Co., Ltd	October 2010	Beijing, China	100%	100%
ESI Software Germany GmbH	August 2011	Stuttgart, Germany	100%	98.5%
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%	99.9%
CYDESIGN LTD	October 2013	Oxford, England	99.9%	99.9%
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%	-
Scilab Enterprises	February 2017	Paris, France	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 related to Virtual Reality software.

(in € thousands)	January 31, 2018	January 31, 2017
TOTAL LICENSES AND MAINTENANCE	105,748	108,316
Consulting	29,100	31,177
Other revenue	429	1,058
TOTAL SERVICES	29,529	32,235
CONSOLIDATED REVENUE	**135,277**	**140,551**
O/w total co-financed research and development projects included in service revenue	5,045	5,041

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 irrecoverable, 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

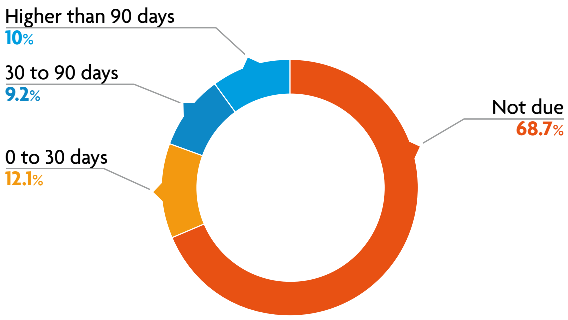
(in € thousands)	January 31, 2018	January 31, 2017
Trade receivables	51,407	62,143
Work in progress and non-invoiced receivables	15,527	16,389
Impairment of trade receivables	(4,010)	(4,468)
TOTAL TRADE RECEIVABLES, NET OF IMPAIRMENT	**62,924**	**74,064**

(in € thousands)	January 31, 2017	Consolidation scope entry	Provisions	Reversals	Foreign exchange gain/ loss	Other movements	January 31, 2018
Impairment	(4,468)	(62)	(635)	994	97	64	(4,010)
TOTAL	**(4,468)**	**(62)**	**(635)**	**994**	**97**	**64**	**(4,010)**

The Group's clientele mainly comprises:

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

AGE OF TRADE RECEIVABLES



(in € thousands)	January 31,2018	January 31,2017
Not due	43,226	54,538
0 to 30 days	7,612	7,079
30 to 90 days	5,811	6,529
Higher than 90 days	6,275	5,918
TOTAL	**62,924**	**74,064**

The amount of trade receivables not due represents 68.7% of annual income. The large amount of not due receivables is due to the highly seasonal nature of sales especially at the end of the fourth quarter.

The type of ESI Group's customers, mainly major clients accounts, presents a history and a very limited risk of non-recovery of receivables.

The amount of trade receivables higher than 90 days includes receivables from Chinese state or parastatal clients whose days of sales outstanding are more important.

Note 4.3. Deferred income

Deferred income essentially corresponds to maintenance to be rendered.

(in € thousands)	January 31, 2018	January 31, 2017
Maintenance services to be rendered	18,309	18,765
Other deferred income	4,287	3,624
DEFERRED INCOME	**22,596**	**22,389**

Note 4.4. Operating expenses

(in € thousands)	January 31, 2018	January 31, 2017
Other purchases and external expenses	(12,794)	(14,026)
Real estate rentals	(6,524)	(6,291)
Fees	(3,719)	(3,168)
Taxes and duties	(572)	(587)
Amortization and provisions	(2,551)	(3,044)
Personnel costs[1]	(88,313)	(86,592)
Other external expenses and income	(11,616)	(11,478)
TOTAL CURRENT OPERATING EXPENSES	(126,089)	(125,186)
Other operating income and expenses[2]	(1,108)	(1,644)
TOTAL OPERATING EXPENSES	**(127,197)**	**(126,830)**

(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

The Group innovates, sells and provides the technical support for its products which allow engineers to predict and improve, by virtual tests, the performance and the expected quality of a product.

Operating segments are the Group's components which have isolated financial information available and whose operating results are regularly reviewed by the company's management in order to evaluate their performance and to decide how resources are allocated.

The Group works in a unique segment, with close ties between its two-identified business, Licenses and Services.

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).

(in € thousands)	Europe, Middle East and Africa	Asia-Pacific	Americas	Eliminations	Consolidated
YEAR ENDED JANUARY 31, 2018					
External clients	63,821	49,943	21,511	-	135,275
Affiliate companies	78,889	8,691	7,194	(94,774)	-
NET SALES	142,710	58,634	28,705	(94,774)	135,275
ASSETS ALLOCATED	**291,995**	**38,200**	**17,671**	**(125,331)**	**222,535**
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**

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, 2018 are listed below:

Due at January 31 *(in € thousands)*	2019	2020	2021	2022	2023 and beyond	Total
Minimum rental payment	4,033	2,579	2,832	2,415	4,106	15,964

At January 31, 2018, ESI Group also had a rent security deposit with Crédit du Nord in an amount of €82 thousand, established in November 2012 and expiring November 28, 2021 plus six months.

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, 2018	January 31, 2017
France	300	286
Rest of the world	901	867
	1,201	**1,153**

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, 2018	January 31, 2017
Salaries	(70,821)	(68,962)
Payroll taxes	(16,497)	(16,653)
Share-based payments	(499)	(333)
Post-employment benefits	(497)	(644)
TOTAL PERSONNEL COSTS	**(88,313)**	**(86,592)**

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	January 31, 2018	January 31, 2017
France	1.40%	1.70%
Germany	1.60%	1.98%
Japan	0.56%	0.60%
South Korea	2.70%	2.20%
India	7.92%	7.30%

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.

Rate of salary increase	January 31, 2018	January 31, 2017
France	2.50%	2.50%
Germany	2.00%	2.00%
Japan	3.00%	3.00%
South Korea	4.00%	3.00%
India	10.00%	10.00%

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, 2017	Change in scope of consolidation	Change in equity (OCI)	Provisions	Reversals	Foreign exchange gain/loss	January 31, 2018
Provision for employee benefits	8,472	-	299	688	(327)	(334)	8,798
TOTAL	**8,472**	**-**	**299**	**688**	**(327)**	**(334)**	**8,798**

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

(in € thousands)	January 31, 2018	January 31, 2017
CHANGE IN COMMITMENTS		
COMMITMENTS AT OPENING	(10,152)	(7,520)
Acquired companies	-	(967)
Costs of services rendered in the period	(824)	(743)
Interest expenses	(218)	(191)
Benefits paid	412	244
Actuarial gains and losses	(292)	(758)
Foreign exchange gain/loss	409	(216)
COMMITMENTS AT CLOSING	**(10,666)**	**(10,152)**
CHANGE IN FAIR VALUE OF ASSETS		
FAIR VALUE OF ASSETS AT OPENING	1,680	700
Acquired companies	-	659
Yield on assets	32	25
Employer contributions	322	367
Benefits paid	(85)	(144)
Actuarial gains and losses	(8)	34
Foreign exchange gains and other	**(75)**	**38**
FAIR VALUE OF ASSETS AT CLOSING	**1,867**	**1,680**
NET EXPENSE FOR THE YEAR		
Costs of services rendered	(824)	(743)
Finance charges	(186)	(166)
Interest expenses	(218)	(191)
Yield on assets	32	25
NET EXPENSE FOR THE YEAR	**(1,010)**	**(909)**
PROVISION RECORDED IN THE BALANCE SHEET		
Commitments financed	(3,136)	(3,867)
Fair value of assets	1,114	1,680
NET COMMITMENTS FINANCED	(2,021)	(2,187)
Commitments not financed	(6,777)	(6,285)
PROVISION AT CLOSING	**(8,798)**	**(8,472)**
CHANGE IN PROVISION		
PROVISION AT OPENING	(8,472)	(6,820)
Net expense for the year	(1,010)	(909)
Actuarial gains and losses	(299)	(724)
Employer contributions	322	367
Benefits paid	327	100
Acquired companies	-	(308)
Foreign exchange gain/loss	334	(178)
PROVISION AT CLOSING	**(8,798)**	**(8,472)**

5.3.3. Sensitivity of commitments to fluctuations in the discount rate

(in € thousands)	
Commitment -0.5%	(11,567)
Commitment	(10,666)
Commitment +0.5%	(10,011)

(in € thousands)	
TOTAL ACTUARIAL GAINS/LOSSES	**(299)**
Experience adjustment	(132)
Change in financial assumptions	(160)
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 (date of General Meeting)	Date of Board of Directors	Number of stock options/shares allotted or to be allotted	Number of stock options/ shares granted	O/w performance shares	Number of existing stock options/shares at January 31, 2018	Exercise price	Limit year for exercising options
Plan 10 (GM of June 26, 2012)	12/19/2012		150,850	62,300	41,850	27.82	2020
	02/07/2014		11,000		375	24.42	2022
	03/26/2015		15,000		-	21.66	2025
	07/22/2015		3,150		3,150	27.17	2023
	Total	**180,000**	**180,000**	**62,300**	**45,375**		
Plan 15 (GM of July 23, 2013)	03/26/2015	294,538	20,000	20,000	-	21.66	2025
Plan 17 (GM of July 24, 2014)	07/22/2015		7,350		7,350	27.17	2023
	03/11/2016		10,000		-	27.17	2026
	05/05/2017		18,175		18,175	50.92	2025
	05/05/2017		1,875	1,875	1,875	50.92	2025
	Total	**180,000**	**37,400**	**1,875**	**27,400**		
Authorization given at the GM of July 2016		297,753					-
TOTAL STOCK-OPTIONS		952,291	237,400	84,175	72,775		
Plan 6 (GM of July 21, 2016)	07/21/2016		25,000	0	25,000	0	2020
Plan 7 (GM of July 21, 2016)	12/23/2016	60,000	2,275	0	2,068	0	2020
Plan 8 (GM of July 21, 2016)	08/01/2017		9,000	0	9,000	0	2021
TOTAL FREE SHARES		60,000	36,275	0	36,068		
TOTAL STOCK-OPTIONS AND FREE SHARES		**1,012,291**	**273,675**	**84,175**	**108,843**		

The total expense related to share-based payments for the fiscal year ended January 31, 2018 stands at €43 thousand. That related to free shares stands at €456 thousand.

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

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

	2017		2016	
	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 THE OPENING	175,733	21.56	207,080	20.54
Stock options/free shares granted	29,050	35.14	37,262	6.27
Stock options expired or canceled	(71,490)	26.76	(12,544)	25.75
Stock options exercised and free shares delivered	(24,450)	26.09	(56,065)	6.98
STOCK OPTIONS AND SHARES EXISTING AT THE CLOSING	108,843	20.34	175,733	21.56
OPTIONS THAT MAY BE EXERCISED AT THE CLOSING	**0**		**0**	

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

	Share price at grant date	Exercise period of stock options/free shares in years	Volatility	Dividend rate	Interest rate
STOCK-OPTIONS					
Plan 10 (Board of 12/19/2012)	26.99	4	24.80%	0%	1.30%
Plan 10 (Board of 02/07/2014)	24.50	3	23.73%	0%	0.30%
Plan 10 (Board of 03/26/2015)	24.94	4	22.13%	0%	0.36%
Plan 10 (Board of 07/22/2015)	28.31	4	23.36%	0%	0.65%
Plan 15 (Board of 03/26/2015)	24.94	4	23.36%	0%	0.65%
Plan 17 (Board of 07/22/2015)	28.31	4	22.13%	0%	0.36%
Plan 17 (Board of 03/11/2016)	24.39	1 to 5	22.79%	0%	0.65%
Plan 17 (Board of 05/05/2017)	55.56	2 to 4	28.16%	0%	0.86%
FREE SHARES					
Plan 6 (Board of 07/21/2016)	30.30	2 to 4	-	0%	1.2%
Plan 7 (Board of 12/23/2016)	45.73	2	-	0%	1.1%
Plan 8 (Board of 08/01/2017)	46.19	2 to 4	-	0%	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, 2017	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	January 31, 2018
GROSS VALUES						
Development costs	53,894	-	31,058	(25,684)	-	59,267
Intangible assets with an indefinite useful life	12,044				-	12,044
Other intangible assets	22,744	22	462	(2,260)	80	21,048
TOTAL	**88,681**	**22**	**31,520**	**(27,945)**	**80**	**92,359**
AMORTIZATION						
Development costs	(15,637)	-	(27,842)	25,684		(17,794)
Intangible assets with an indefinite useful life	(73)	-				(73)
Other intangible assets	(15,142)	(8)	(1,597)	2,207	(83)	(14,623)
TOTAL	**(30,851)**	**(8)**	**(29,439)**	**27,891**	**(83)**	**(32,490)**
NET CARRYING AMOUNTS						
Development costs	38,257	-	3,216		-	41,473
Intangible assets with an indefinite useful life	11,971	-			-	11,971
Other intangible assets	7,602	14	(1,135)	(53)	(3)	6,425
TOTAL	**57,830**	**14**	**2,081**	**(53)**	**(3)**	**59,869**

6.1.2. Capitalized development costs

Research and development costs borne to gain new scientific or technical knowledge are recorded as expenses when incurred.

Development costs are capitalized in situations where the six requirements set forth under IAS 38, "Intangible Assets", are met:

- Technical feasibility of completing the research and development project has been established;
- The Group intends to complete the project;
- The Group will be able to use or sell the product arising from the research and 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 research and development project and to sell the resulting product;
- The Group has the ability to reliably measure the expenses attributable to the research and development project.

The expenses thus converted into assets include the cost of direct labor as well as sub-contracting.

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.

Research and development costs that do not meet IAS 38 criteria are recorded as expenses when incurred.

In certain cases, research and development costs entitle the Group to a tax credit, recorded during the fiscal year when expenses were incurred. These tax credits are deducted from research and development costs.

NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS

(in € thousands)	January 31, 2018	January 31, 2017
Development costs capitalized during the period	29,511	28,289
Development costs amortized during the period	(26,295)	(25,457)
NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS	**3,216**	**2,832**

Net value of capitalized developments costs represented 14.3 months of research and development costs (€41.4 million) incurred at January 31, 2018, compared to 14 months (€38.3 million) at January 31, 2017.

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

(in € thousands)	January 31, 2018	January 31, 2017
R&D costs incurred during the period[(1)]	**(34,873)**	**(32,694)**
Development costs capitalized during the period	29,511	28,289
Development costs amortized during the period	(26,295)	(25,457)
French R&D tax credit	2,959	2,920
TOTAL R&D COSTS RECOGNIZED AS EXPENSES DURING THE FISCAL YEAR	**(28,698)**	**(26,942)**

(1) Including €5.362 million in expenses accounted for as direct costs in 2018, compared to €4.405 million in 2017.

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, 2018 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, 2017	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	January 31, 2018
GROSS VALUES						
Fixtures and fittings	3,478	28	817	(13)	(84)	4,226
Computer hardware	13,270	37	1,868	(294)	(380)	14,501
Office furnishings and other tangible assets	3,372	-	388	(89)	(101)	3,571
TOTAL	**20,120**	**65**	**3,074**	**(396)**	**(565)**	**22,298**
AMORTIZATION						
Fixtures and fittings	(2,469)	(23)	(453)	12	41	(2,892)
Computer hardware	(10,552)	(37)	(1,731)	283	246	(11,790)
Office furnishings and other tangible assets	(2,659)	1	(246)	89	75	(2,740)
TOTAL	**(15,680)**	**(58)**	**(2,430)**	**384**	**362**	**(17,422)**
NET CARRYING AMOUNTS						
Fixtures and fittings	1,010	5	365	(2)	(43)	1,335
Computer hardware	2,717	1	137	(11)	(134)	2,711
Office furnishings and other tangible assets	713	2	142	-	(26)	831
TOTAL	**4,440**	**8**	**644**	**(12)**	**(203)**	**4,877**

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

	Carrying amount under IAS 39 January 31, 2018		
(in € thousands)	Amortized cost	Fair value through equity	Fair value through profit and loss
ASSETS			
Non-current financial assets:			
• Non-consolidated investments			24
• Deposits and guarantees	3,290		
• French R&D tax credit receivables for 2014, 2015 and 2016	6,872		
• Derivative assets			113
Trade receivables	62,924		
Cash and cash equivalents			15,502
LIABILITIES			
Bank borrowings	38,819		
Factoring of French R&D tax credit for 2014, 2015 and 2016	6,872		
Other financial debts	863		-
Derivative liabilities		36	
Other financial liabilities		851	
Payables	9,968		

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

The main source of funding for ESI Group is the syndicated loan agreement signed in November 2015, made up of long term lines of credit with a maturity date of November 2022, and a short time line of €10 million revolving credit.

At January 31, 2018, ESI Group had established rate hedging instruments for 40% of the nominal amount of long term lines (see note 7.1.4). Moreover, at the closing date, €6 million of the revolving line of credit has been used. At the balance date of approval of financial statements by the Board of Directors, the entire revolving line of credit had been paid off.

All financial debts are denominated in euros.

Detail and maturity of financial debt

At January 31, 2018	Maturity at January 31					
(in € thousands)	2018	2019	2020	2021	2022 and beyond	Total
Syndicated loan	4,464	4,464	4,464	4,464	12,227	30,085
Short-term revolving loan	6,000					6,000
Other bank borrowings	2,734		400	600		3,734
Factoring of French R&D tax credit for 2014, 2015 and 2016		1,991	2,448	2,433		6,872
Profit-sharing funds	119					119
Other financial debts	148	467	65	65		744
TOTAL	**13,464**	**4,931**	**6,520**	**9,410**	**13,227**	**47,553**
	CURRENT: 13,464				NON-CURRENT: 34,089	

At January 31, 2017	Maturity at January 31					
(in € thousands)	2017	2018	2019	2020	2021 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			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	

Financial debt by type of interest rate and maturity

At January 31, 2018	Maturity at January 31					
(in € thousands)	2018	2019	2020	2021	2022 and beyond	Total
Fixed-rate debt	68	-	-	-	-	68
Variable-rate debt	13,130	4,464	6,455	9,345	13,227	46,622
No-interest debt	266	467	65	65	-	863
TOTAL	**13,464**	**4,931**	**6,520**	**9,410**	**13,227**	**47,553**
	CURRENT: 13,464				NON-CURRENT: 34,089	

The following table shows the changes in financial debts in 2017, and identifies the changes with an impact on cash or those without.

(in € thousands)	January 31, 2017	Flows with cash impact			Flows without cash impact		January 31, 2018
		New borrowings	Repayment	Other cash flows from financing activities	Change in consolidation scope	Foreign exchange gain/loss	
Syndicated loan	34,553		(4,468)	-	-	-	30,085
Short-term revolving loan	8,000	6,000	(8,000)	-	-	-	6,000
Other bank borrowings	3,635	2,738	(2,635)	-	-	(5)	3,733
Factoring of French R&D tax credit	4,439	2,433	-	-	-	-	6,872
Profit-sharing funds	163	-	(163)	-	119	-	119
Other financial debts	1,047	240	(543)	-	-	-	744
TOTAL	**51,837**	**11,411**	**(15,809)**	**-**	**119**	**(5)**	**47,853**

7.1.3. Cash and cash equivalents

"Cash and cash equivalents" correspond 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, 2018	January 31, 2017
Cash	15,502	14,470
Marketable securities	219	-
TOTAL CASH AND CASH EQUIVALENTS	**15,721**	**14,470**

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 instruments

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, 2018 are as follows:

- Three swaps of €1.5 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 €2.5 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.
- One swap of €0.5 million, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying fixed rates of 0.30%.

At January 31, 2018, the market value of these instruments was €-36 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, 2018 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, 2018, the market value of these instruments was €113 thousand.

Note 7.2. Financial income and expenses

(in € thousands)	January 31, 2018	January 31, 2017
Interest and related expenses on borrowings	(962)	(1,000)
Interest income	4	12
Foreign exchange gain/(loss)	(1,290)	(818)
Floor of syndicated credit	0	258
Other financial expenses	(466	(566)
FINANCIAL RESULT	**(2,718)**	**2,115**

Interests on borrowings are related to the drawdowns on long term lines of syndicated credit and related charges. Despite an annual reimbursement of €4.5 million and thus a lowering of long term credit, interests paid are similar to 2016 due to higher use of the revolving credit line during the year. Other financial expenses include:

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

Details on foreign exchange gains and losses are as follows:

(in € thousands)	January 31, 2018	January 31, 2017
USD	(516)	(216)
JPY	(378)	(823)
KRW	(136)	114
Other currencies	(261)	107
TOTAL	**(1,290)**	**(818)**

The negative foreign exchange result is mainly due to the revaluation of the accounts payables and receivables in foreign currency at the closing rate.

Note 7.3. Risk management policy

Country risk and foreign currency risk

During the fiscal year ended January 31, 2018, 47.1% of the Group's revenue was generated in Europe, 37% in Asia (mainly Japan, South Korea, China and India) and 15.9% 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, 2018, 44.3% of revenue was generated in EUR, 19.4% in USD (US dollar), 19.2% in JPY (Japanese yen), 4.8% in KRW (Korean won) and 5% in CZK (Czech koruna).

Furthermore, 55.1% of costs are spent in EUR, 16.4% in USD (US dollar), 7.7% in JPY (Japanese yen), 7.3% in INR (Indian rupee), 2.9% in KRW (South Korean won), 3.3% in CZK (Czech koruna) and 2.5% in CHF (Swiss franc).

The following table 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	127.75	140.52	-1.5
KRW	1,279.71	1,407.68	-0.3
CZK	26.20	28.82	-0.2
USD	1.14	1.26	-0.1
INR	73.95	81.34	0.5
CHF	1.12	1.23	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, 2018, €6 million of the revolving credit line has been used and this line was entirely paid off at the date of approval of accounts by the Board of Directors. 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, 2018 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	(13,130)	(20,265)	(13,227)	(46,622)
Variable rate financial assets				
Off-balance sheet commitments				
NET POSITION	**(13,130)**	**(20,265)**	**(13,227)**	**(46,622)**
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 2.7 at January 31, 2018 (tapering threshold for future years);
- Ratio R2: Consolidated net financial debt divided by consolidated equity: less than or equal to 0.6;
- 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, 2018, on the basis of the consolidated financial statements certified by the auditors, the Group was compliant with the ratios described above.

In January 2017, ESI Group signed with BPI France a long term financing envelope of up to €3 million over five years, €1 million has been used since January 31, 2017.

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, 2018	January 31, 2017
Current taxes	(2,494)	(4,322)
Deferred taxes	(703)	330
TOTAL	**(3,197)**	**(3,992)**

8.1.2. Tax proof

(in € thousands)	January 31, 2018	January 31, 2017
Net income before taxes	**5,578**	**11,695**
Including share of profit of associates	216	89
Theoretical tax rate	**33,33%**	**33.33%**
Theoretical tax (expense)/benefit	**(1,786)**	**(3,868)**
Permanent differences between accounting income and taxable income	(667)	(263)
Impact of liability method	(582)	(268)
Impact of standard tax rate differentials between parent company and subsidiaries	148	207
Unrecognized deferred tax assets and unused tax losses	(541)	(736)
Recognition of previously unrecognized deferred tax assets	230	936
GROUP INCOME TAX EXPENSE	**(3,197)**	**(3,992)**
Effective tax rate	59.6%	34.4%

The tax rate is significantly higher than 2016 exercise due to three factors (the first two are exceptional in 2017):

- The revaluation of deferred tax assets and liabilities in prevision of tax rates decrease in France and in United States, which represents a charge of €582 thousand against a charge of €268 thousand in 2016;
- Tax credit losses of €526 thousand;
- The revaluation of deferred tax assets on tax loss carryforwards following the update of estimates, which represents a cost of €311 thousand against a profit of €200 thousand in 2016.

Note 8.2. Deferred taxes

BREAKDOWN OF DEFERRED TAXES BY TAX BASE

(in € thousands)	January 31, 2018	January 31, 2017
DEFERRED TAX ASSETS		
Tax loss carryforwards	1,752	1,928
Temporary differences related to tax treatment of maintenance	4,038	4,454
Provisions for employee benefit commitments	2,937	2,792
Temporary differences related to personnel	507	1,073
Provisions and other adjustments	1,505	654
TOTAL DEFERRED TAX ASSETS	10,738	10,901
DEFERRED TAX LIABILITIES		
Amortization of acquired intangible assets	(1,722)	(2,005)
Other	(2,015)	(958)
TOTAL DEFERRED TAX LIABILITIES	(3,737)	(2,963)
NET DEFERRED TAX	**7,001**	**7,939**

Unrecognized deferred tax assets on tax loss carryforwards came to €2.663 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, 2017)	7,939
Acquired companies	(86)
Deferred tax expenses recorded in the income statement	(819)
Deferred tax expenses recognized directly in equity (IAS 19 revised)	86
Foreign exchange gain/loss on deferred tax expenses	13
Other movements	(132)
NET DEFERRED TAX ASSETS AT CLOSING (JANUARY 31, 2018)	**7,001**

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, 2018, ESI Group's share capital was €18.049 million, comprising 6,016,442 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 9,080 shares over the fiscal year, mainly due to the payment of the acquisition of Scilab Enterprises. The percentage of capital held as treasury shares following these transactions stood at 6.8% at January 31, 2018, compared to 7% at January 31, 2017. The Group owns a total of 410,306 treasury shares, purchased at a historical cost of €4.440 million and with a market value of €17.643 million at the same date, for an unrealized gain of €13.203 million.

€4.123 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 part of equity corresponding to minority interests becomes negative, it will be retreated so as to be at least equal to zero. Nevertheless, this situation never happened.

Note 9.3. Earnings per share

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

(in € thousands)	January 31, 2018	January 31, 2017
NET INCOME (GROUP SHARE)	**2,375**	**7,523**
Net earnings per share *(in €)*	0.42	1.36
Average number of shares	5,594,573	5,547,500
Diluted earnings per share *(in €)*	0,42	1.35
Average number of diluted shares	5,648,574	5,591,671

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, 2018	January 31, 2017
Security deposits	3,043	3,082
Factored French R&D tax credit	6,872	4,439
Other long term assets	247	355
Investments in non-consolidated companies	24	24
TOTAL OTHER NON-CURRENT ASSETS	**10,186**	**7,900**

Security deposits mainly concern real estate rentals.

Factored receivables under the French R&D tax credit concern FY 2014, FY 2015 and FY 2016 (see note 7.1.2.). Factoring from previous years was deconsolidated.

Factoring of French R&D tax credit receivables represents a cash collection, which counterparty is a financial debt. Thus, in the cash flow statement, the cash collected related to these factoring corresponds to the increase of new borrowings, such as indicated in the financing flows' part of the cash flow statement (respectively for €2.448 million and €2.433 million on January 31, 2017 and January 31, 2018).

The two others flows presented in the cash-flow statement related to the factoring of French R&D tax credit receivables do not represent cash but result from book entries. They are:

- the increase of long term receivable in consolidated statements, indicated on the line of other non-current assets in investments' part of cash flow statement, for respectively € 2.836 million and €2.827 million on January 31, 2017 and January 31, 2018;
- the decrease of short-term receivable in local accounts of the parent company, indicated in operating cash flows' part of cash flow statement, for the same amounts.

The income related to French R&D tax credit for 2017 is classified in operating cash flows' part of cash flow statement, for respectively €2.679 million and €2.827 million on January 31, 2017 and January 31, 2018.

10.1.2. Other current receivables

(in € thousands)	January 31, 2018	January 31, 2017
French R&D tax credit	3,038	3,230
Other tax credits	1,941	1,488
VAT and other receivables	6,975	7,554
TOTAL OTHER CURRENT ASSETS	**11,954**	**12,273**

French R&D tax credit receivables as of January 31, 2018 are related to costs incurred in FY 2017.

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, 2018	January 31, 2017
Employee-related liabilities	12,792	14,061
Tax payables	9,692	10,494
Other current liabilities	4,009	4,774
TAX PAYABLES, EMPLOYEE-RELATED LIABILITIES AND OTHER SHORT-TERM LIABILITIES	**26,493**	**29,329**

Tax payables consist primarily of VAT payables in the amount of €8.647 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, 2017	Provisions	Reversals - provisions used	Reversals - provisions not used	Foreign exchange gain/loss	January 31, 2018
Disputes	1,042	104	(498)	-	(57)	591
CURRENT PROVISIONS FOR LIABILITIES	**1,042**	**104**	**(498)**	**-**	**(57)**	**591**

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, 2018 and January 31, 2017 breaks down as follows:

(in € thousands)	January 31, 2018	January 31, 2017
Fixed compensation	726	738
Variable compensation	121	26
Travel bonus	51	134
Benefits in kind	198	207
Directors' fees	16	16
TOTAL	1,113	1,121

The detailed terms of remuneration of executive corporate officers are presented in Section 2.6. of the Reference Document.

Regarding post-employment benefits, the provision for retirement benefits for the two executive corporate officers whose employment contract was suspended at the time of taking office is €97 thousand. They also benefit from the allocation of 6,475 stocks options to purchase or subscribe for shares under Plan No. 10 and 10,000 free shares under Plan No. 6.

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 USD94 thousand. This agreement was approved by the Board of Directors during April 8, 2017 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	116	144	39%	40%	144	157	52%	54%	260	301	45%	46%
• Fully consolidated subsidiaries	90	101	30%	28%	128	133	46%	46%	218	234	38%	36%
Services other than certification of accounts												
• Parent company	57	38	19%	11%	7	0	3%	0%	64	38	11%	6%
• Fully consolidated subsidiaries	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
SUB-TOTAL STATUTORY AUDIT	263	283	88%	78%	279	290	100%	100%	542	573	94%	88%
OTHER WORK AND SERVICES DIRECTLY RELATED TO STATUTORY AUDIT												
Legal, tax, social	34	78	12%	22%	0	0	0%	0%	34	78	6%	12%
Others	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
SUB-TOTAL OTHER SERVICES	34	78	12%	22%	0	0	0%	0%	0	78	6%	12%
TOTAL	**298**	**361**	**100%**	**100%**	**290**	**259**	**100%**	**100%**	**577**	**651**	**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, 2018 came to €303 thousand.

Note 13. Subsequent events

No post-closing events.

1 2 3 4 5 6 7 8

5.1.6. Statutory Auditors' report on the consolidated financial statements

This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the information concerning the Group presented in the 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, 2018

To the General Meeting of ESI Group,

Opinion

In compliance with the engagement entrusted to us by your General Meeting, we have audited the accompanying consolidated financial statements of ESI Group for the year ended January 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at January 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from February 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics *(Code de déontologie)* for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Capitalization of development costs

Risk identified

In the balance sheet of the Group, non-current assets include capitalized development costs. As of January 31, 2018, their net book value amounts to €41,473 thousand. They correspond mostly to cost of direct labor as well as sub-contracting, incurred for the development of new annual versions or major improvements of existing ESI software.

As indicated in paragraph 6.1.2 of the notes to consolidated financial statements, development costs are capitalized in situations where the six requirements set forth under IAS 38, "Intangible Assets", are met. Capitalized development costs start to be amortized after the market release of the related version of the software. Capitalized expenses are amortized on a straight-line basis over a period of 12 months for new annual versions of software, and over 24 or 36 months for major improvements to existing products, depending on the degree of innovation.

ESI Management set up procedures and rules to ensure that:

- The process to distinguish between research and development costs is respected;
- Capitalized development costs met all criteria set forth under IAS 38; and
- Useful life period over which each project is amortized is adapted to the nature / level of innovation of the project.

However, regarding the significant impact on the consolidated income statement of capitalization of development costs and the significant balance of these capitalized costs recorded as assets in the consolidated balance sheet, it follows that any deviation from the procedures in place or any misinterpretation of the capitalization criteria could lead to significant impacts on the Group's consolidated financial statements and financial performance.

The assessment of compliance with the criteria for capitalization of development costs, as well as the determination of the amortization period depending on the nature of the project, are very much based on Management's judgment and the reliability of the procedures applied for the identification and allocation of expenses between the different projects.

On this basis, we considered capitalization of development costs as a key audit matter.

Our response

We examined the compliance of the Group's accounting treatment of research and development costs with current accounting standards.

We also conducted a critical review of how this methodology was implemented. In particular, we conducted the following procedures:

- We have taken notice of the procedure followed by the Group to distinguish between research and development costs and, for the latter, the rules put in place to assess compliance with the capitalization criteria laid down in IAS 38;
- We tested by sampling the correct application of the procedures implemented for the identification, monitoring and recording of research and development costs;
- We audited, for a selection of projects, the correct application of the capitalization criteria set out in IAS 38 and tested the accuracy and completeness of the most significant expenses charged to these projects;
- We verified the correct calculation of amortization expense mainly by controlling the correct application of the rules for setting the straight-line amortization period, depending on the nature of the project (major improvement or new version).

We have reconciled accounting and management data in order to assess the accuracy and completeness of information reporting process for recording.

Valuation of goodwill

Risk identified

As part of its development, the Group was led to carry out targeted acquisitions leading to recognition of goodwill.

This goodwill, which corresponds to the difference between the price paid and the fair value of identifiable assets and liabilities acquired, amounts to €41,026 thousand at end January 2018.

Any adverse change in the expected returns of the business, due to internal or external factors, for example related to the economic and financial environment, is likely to significantly affect the recoverable amount and require the recognition of impairment. Such a change therefore implies a regular reappraisal (at least once a year, or when an indication of loss of value is identified) of the relevance of all the assumptions used to determine this value as well as the reasonableness and coherence of the valuation parameters. To this end, Management examines indicators of potential losses and performs an impairment test by ensuring annually that the book value of goodwill does not exceed their recoverable amount. This recoverable amount is determined by reference to the value in use, itself calculated from the present value of the expected cash flows of the group of assets. For the purpose of the impairment test, goodwill is allocated to cash generating units ("CGUs"). ESI Group uses a single CGU for the entire Group.

Methodology applied for the impairment test and assumptions used are presented in paragraph 3.1 of the notes to consolidated financial statements.

The determination of the recoverable value of goodwill is largely based on Management's judgment, in particular as regards the growth rate used for the cash flow projections and the discount rate applied. We therefore considered the valuation of goodwill as a key audit matter.

Our response

We obtained the last budget and strategic plan as well as the impairment test established by Management. Based on this information, we performed the following procedures:

- We examined the regularity and permanence of the accounting principles and methods applied;
- We analyzed the key assumptions retained:
  - regarding cash flows: critical review of the budget and strategic plan validated by Management, based on our knowledge of the Group,
  - regarding the long-term growth rate and the discount rate applied to these flows, we have assessed, with the help of our valuation specialists, the main assumptions used;
- We performed an arithmetic check of the calculation of the recoverable value of the assets and of their book value.

We obtained and reviewed sensitivity analyzes performed by Management.

Revenue recognition principles

Risk identified

The Group generates revenue from several sources, the main ones being software licenses, periodic licenses, maintenance services and services.

In the case of contracts that include several of these items sold together, the determination of the date of recognition of the revenue and its allocation between the different components of the contracts may require, if necessary, a part of the judgment of Management.

Revenue from software licenses comes from end-user license fees and associated maintenance services. The portion of revenue allocated to maintenance is determined by the nature of the license sold, as described in paragraph 4.1 of the notes to consolidated financial statements. This allocation of revenue between the different components of a contract requires analyzes and restatements of the Management.

We therefore considered for these various reasons the recognition of revenue as a key audit matter.

Our response

As part of our audit, we conducted tests on all contracts deemed significant as well as on a sample of contracts selected at random, in order to (i) review the allocation (in accordance with the accounting principles described in paragraph 4.1 of the notes to consolidated financial statements) of the revenue between each component of the contract; (ii) analyze the revenue recognition for the appropriate amount and the appropriate accounting period.

These tests include analyzing the contractual terms, recalculating each item and examining the revenue recognition in accordance with the principles set out in paragraph 4.1 of the notes to consolidated financial statements, which conformity with IFRS was previously assessed.

Verification of the information pertaining to the Group presented in the management report

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

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

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of ESI Group by the General Meeting held on June 25, 2009 for PricewaterhouseCoopers Audit and on December 16, 1997 for Ernst & Young Audit.

As at January 31, 2018, PricewaterhouseCoopers Audit and Ernst & Young Audit were in the 9th year and 21th year of total uninterrupted engagement (which are the 18th year since securities of the Company were admitted to trading on a regulated market) respectively.

Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the consolidated financial statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code *(Code de commerce)*, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements;
- Assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code *(Code de commerce)* and in the French Code of Ethics *(Code de déontologie)* for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Paris-La Défense, May 23, 2018
The Statutory Auditors
French original signed by

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, 2018	January 31, 2017 Published	January 31, 2017 Restated[1]
Sales of goods		23		
Sales of services		83,861	84,313	84,313
NET REVENUE	E.1	83,884	84,313	84,313
Production held as inventory		(500)	543	543
Capitalized production		29,540	28,467	28,467
Operating subsidies		144	173	173
Reversals of depreciation, amortization, and provisions, expense transfers		1,435	675	1,235
Other income		1,311	2	1,076
OPERATING INCOME		115,814	114,173	115,807
Purchases of raw materials and other supplies (and customs duties)		70	114	114
Changes in inventory (raw materials and supplies)		(10)	(96)	(96)
Other purchases and external expenses	E.3	60,506	60,973	60,973
Taxes and duties	E.4	1,384	1,246	1,246
Wages and salaries		14,767	14,160	14,160
Payroll taxes		6,971	6,712	6,712
Depreciation and amortization of non-current assets	E.5	26,984	26,618	26,618
Provisions	E.5	2,357	1,041	2,085
Other expenses	E.6	1,489	212	1,298
OPERATING EXPENSES		114,518	110,981	113,111
OPERATING RESULT		**1,296**	**3,192**	**2,697**
FINANCIAL RESULT	**E.7**	**2,004**	**(2,492)**	**(1,997)**
CURRENT RESULT BEFORE TAX		**3,300**	**700**	**700**
EXCEPTIONAL RESULT	**E.8**	**18**	**(721)**	**(721)**
Employee profit-sharing			16	16
Income tax	F.5	(2,228)	(1,669)	(1,669)
NET PROFIT (LOSS)		**5,547**	**1,632**	**1,632**

(1) The restated income statement at January 31, 2017 accounts for the change of accounting method for the fiscal year ended January 31, 2018, i.e. booking in operating result of all foreign exchange gains or losses on trade receivables and payables (see note A.2).

5.2.2. Balance sheet

Assets

(in € thousands)	Notes	January 31, 2018 Gross value	January 31, 2018 Amortization/ Provisions	January 31, 2018 Net value	January 31, 2017 Net value
Intangible assets	C.1	84,639	(25,822)	58,818	54,931
Property, plant and equipment	C.2	9,579	(7,980)	1,599	2,043
Financial assets	C.3	70,216	(5,981)	64,235	64,892
NON-CURRENT ASSETS		164,434	(39,782)	124,652	121,865
Inventories		1,648		1,648	1,671
Down payments to suppliers		62		62	307
Trade receivables	C.4	59,509	(2,439)	57,070	56,785
Other receivables	C.4	8,885	(130)	8,756	9,299
Marketable securities (treasury shares)	C.5	4,512		4,512	4,375
Cash		5,005		5,005	5,328
CURRENT ASSETS		79,621	(2,569)	77,052	77,766
Prepaid expenses	C.6	2,558		2,558	2,595
Expenses capitalized, to be amortized	C.7	358		358	434
Foreign exchange gains and losses	C.7	1,576		1,576	1,044
TOTAL ASSETS		**248,547**	**(42,351)**	**206,196**	**203,704**

Liabilities

(in € thousands)	Notes	January 31, 2018	January 31, 2017
Share capital	D.2	18,049	17,976
Additional paid-in capital		38,314	37,749
Legal reserve		1,798	1,787
Retained earnings		32,549	30,927
Net profit (loss)		5,547	1,632
Regulated provisions		1,344	1,084
EQUITY	D.10	97,600	91,155
OTHER EQUITY	D.4	485	310
PROVISIONS FOR CONTINGENCIES AND CHARGES	D.5	5,561	5,031
Bank borrowings	D.7	37,251	44,103
Miscellaneous financial debt	D.8	2,500	2,633
FINANCIAL LIABILITIES		39,751	46,736
Down payments from clients	D.6	202	233
Trade payables		37,649	38,523
Tax payables and employee-related liabilities	D.9	6,992	6,719
Other liabilities	D.6 & D.10	16,058	11,372
OPERATING LIABILITIES AND MISCELLANEOUS DEBTS		60,900	56,847
Deferred income		724	345
Foreign exchange gains and losses		1,176	3,280
TOTAL LIABILITIES		**206,196**	**203,704**

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, 2018 came to €206,196 million and the income statement for the fiscal year showed net profit of €5.547 million.

The fiscal year corresponds to a 12-month period, from February 1, 2017 to January 31, 2018.

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 scope of consolidation

- Acquisition in February 2017 of 100% of the shares of the French company Scilab Enterprises paid essentially in ESI treasury shares.
- Buyout of minority interests in the subsidiaries ESI Software Germany and ESI Italia s.r.l. (100% of capital owed for both at January, 2018).

Note A.2.Change in accounting method

As of the fiscal year ended January 31, 2018, ESI Group applies the ANC Regulation 2015-05 on forward financial instruments and hedging transactions, which is compulsory to fiscal years beginning on or after January 1, 2017.

According to this new regulation, realized foreign exchange gains or losses on trade receivables and payables are now recorded in operating result. By analogy, provisions and provisions reversals for unrealized foreign exchange losses on trade receivables and payables are recognized in operating income.

For information purposes, the income statement is presented with comparative figures at January 31, 2017 – 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 research and 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 and development projects or the portion of expenses 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 the methods presented here below according to the situation of the subsidiary:

- 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 provisioned 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 reasoning 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, 2018, marketable securities were made up exclusively of the Company'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 acquisition.

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 securities.

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. Liabilities, receivables and cash in foreign currency are recorded on the balance sheet at the exchange value prevailing at the balance sheet date.

The difference resulting from the conversion of the debts and receivables in currencies at this final exchange rate is recorded on the balance sheet as a “currency translation adjustment.”

A provision for contingencies is recorded for foreign exchange losses only for the part that does not have hedging.

Losses, gains or foreign exchange provisions on operating trade receivables and payables are accounted in operating result, and those on financial items are accounted in financial result.

Note B.10. 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. When maturities fall, gains and losses from financial instruments are booked in operating result when they cover receivables or debts and in financial result when they are related to financial receivables or debts.

Signed financial instruments are 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 offset 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.

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 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.

The provision at year-end represents the actuarial commitment. The Company has no hedging asset.

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.

Co-financed projects

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 prior to the current year.

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, 2017	Increase	Decrease	January 31, 2018
Development costs	35,338	29,738	(25,684)	39,392
Patents, licenses, brands	25,701	304		26,005
Goodwill	1,028			1,028
Intangible assets in progress, development costs	16,374		(199)	16,175
Other intangible assets in progress	1,944	94		2,038
TOTAL GROSS VALUE	80,385	30,137	(25,883)	84,639
Development costs	(16,050)	(25,486)	25,684	(15,851)
Patents, licenses, brands	(9,332)	(566)		(9,898)
Goodwill	(73)			(73)
TOTAL AMORTIZATION, PROVISIONS	(25,455)	(26,051)	25,684	(25,822)
Development costs	19,288	4,252		23,541
Patents, licenses, brands	16,369		(261)	16,108
Goodwill	955			955
Intangible assets in progress, development costs	16,374		(199)	16,175
Other intangible assets in progress	1,944	94		2,038
TOTAL NET VALUE	**54,930**	**4,347**	**(460)**	**58,818**

The decrease in development costs reflects scrapping of fully amortized assets.

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, 2017	Increase	Decrease	January 31, 2018
Fixtures and fittings	2,333	167		2,500
Office furnishings and equipment	6,623	430	(1)	7,052
Other tangible non-current assets	27			27
TOTAL GROSS VALUE	8,983	597	(1)	9,579
Fixtures and fittings(1)	(1,462)	(334)		(1,795)
Office furnishings and equipment	(5,453)	(707)		(6,159)
Other tangible non-current assets	(26)			(26)
TOTAL AMORTIZATION, PROVISIONS	(6,940)	(1,042)	2	(7,980)
Fixtures and fittings	871	(167)	1	705
Office furnishings and equipment	1,171	(278)		893
Other tangible non-current assets	1			1
TOTAL NET VALUE	**2,043**	**(445)**		**1,599**

(1) This line includes an exceptional provision of € 185 thousand. It corresponds to an accelerated amortization of Rungis office fixtures and fittings because of a future relocation in july 2018.

Note C.3. Financial assets

(in € thousands)	January 31, 2017	Increase	Decrease	January 31, 2018
Equity investments	55,865	1,286		57,151
Receivables related to equity investments	13,196		(1,664)	11,532
Other financial assets(1)	1,351	347	(166)	1,532
TOTAL GROSS VALUE	70,412	1,633	1,830	70,215
Provisions for impairment of equity investments	(3,785)	(340)		(4,125)
Provisions for receivables related to equity investments	(1,736)	(116)		(1,852)
Provisions for depreciation of other financial assets		(4)		(4)
TOTAL AMORTIZATION, PROVISIONS	(5,521)	(460)	0	(5,981)
Equity investments	52,080	946		53,026
Receivables related to equity investments	11,460		(1,780)	9,680
Other investments	1,351	177		1,528
TOTAL NET VALUE	**64,891**	**1,123**	**(1,780)**	**64,235**

(1) This line primarily includes deposits and guarantees on rental properties for an amount of €486 thousand, factoring guarantee funds for an amount of €900 thousand, and treasury shares (liquidity contract) for an amount of €147 thousand.

Movements in equity investments (gross value)

(in € thousands)	January 31, 2017	Increase	Decrease	January 31, 2018
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	394		1,050
ESI South America Comércio e Serviços de Informática Ltda	6			6
ESI Services TUNISIA	242			242
Acquisition costs ESI Services Tunisia	8			8
ESI Group Beijing Co., Ltd	543			543
ESI Software Germany GmbH	10,391	317		10,708
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.	293			293
CIVITEC	900			900
Acquisition costs CIVITEC	62			62
ITI GmbH	17,952			17,952
Acquisition costs ITI GmbH	436			436
Scilab Enterprises		550		550
Acquisition costs Scilab Entreprises		25		25
Cademce SAS	100			100
TOTAL	**55,865**	**1,286**		**57,151**

Movements in the provision for equity investments

(in € thousands)	January 31, 2017	Increase	Reversal	January 31, 2018
ESI-ATE Holdings Limited	1,737			1,737
Hong Kong ESI CO., Limited	119			119
Zhong Guo Co., Ltd	193			193
CyDesign Labs, Inc.	1,205	121		1,326
OpenCFD Limited	432	219		651
Cademce	100			100
TOTAL	**3,785**	**339**		**4,125**

As at January 31, 2018 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.

Receivables related to equity investments

(in € thousands)	Gross value January 31, 2018	Gross value January 31, 2017	Remuneration rate
Loan ESI North America, Inc. (USD9.7 million)	7,787	9,019	6-month Libor $ + 1% margin
Loan Hong Kong ESI (USD1.124 million)[1]	902	1,045	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]	1,823	2,112	6-month Libor $ + 1% margin
TOTAL	**11,532**	**13,196**	

(1) This loan has been impaired by €0.718 million.
(2) This loan has been impaired by €1.134 million.

Note C.4. Receivables – Provisions for depreciation of receivables

(in € thousands)	At January 31, 2018 Gross value	At January 31, 2018 Due in 1 year or less	At January 31, 2018 Due in between 1 and 5 years	At January 31, 2017 Gross value
Loans granted to controlling interests	11,532		11,532	13,196
Loans				147
Treasury shares	147	147		62
Deposits and guarantees	1,386	292	1,094	1,142
Doubtful or disputed receivables	2,430	2,430		2,091
Trade receivables	10,600	10,600		10,784
Trade receivables with affiliate companies	46,478	46,478		46,003
Income tax receivables - advance payment	839	839		759
R&D tax credit receivable	2,679	2,679		3,083
Competitiveness and employment tax credit receivable	160	160		136
Other tax credits	396	396		155
Value added tax (VAT)	1,005	1,005		1,037
Co-financed projects	3,197	3,197		4,054
Trade payables debtors	540	540		
Other receivables	69	69		206
Prepaid expenses	2,558	2,558		2,595
TOTAL	**84,017**	**71,391**	**12,626**	**85,450**

Details of provisions for depreciation of receivables

(in € thousands)	January 31, 2017	Increase	Reversal used	January 31, 2018
Provisions for doubtful receivables	2,093	435	(89)	2,439
Provisions for other receivables	131		(2)	129
TOTAL	**2,224**	**435**	**(90)**	**2,569**

Note C.5. Treasury shares

Treasury shares in the balance sheet are classified in Financial assets in an amount of €147 thousand (liquidity contract) and in Marketable securities in an amount of €4.293 million.

Change in the number of treasury shares

	January 31, 2017	Increase	Decrease	January 31, 2018
Treasury shares	419,386	86,899	95,979	410,306

The total value on the balance sheet is thus €4.440 million, compared to a market fair value of €17.643 million at January 31, 2018, for an unrealized gain of €13.203 million.

Note C.6. Prepaid expenses and expenses capitalized, to be amortized

(in € thousands)	January 31, 2018	January 31, 2017
Prepaid rent	507	932
Maintenance prepaid expenses	1,347	691
Other prepaid expenses	704	972
Debt issuance expenses[1]	358	434
TOTAL	**2,916**	**3,029**

(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, 2018	January 31, 2017
Trade receivables	1,082	374
Trade payables	493	670
TOTAL	**1,576**	**1,044**

Note C.8. Accrued income

(in € thousands)	January 31, 2018	January 31, 2017
Receivables to be invoiced	4,010	3,043
Receivables to be invoiced from affiliate companies	1,877	1,249
Vendor credit notes to be issued	259	31
Group trade payables credit note to issue	275	0
Miscellaneous income	39	108
TOTAL	**6,460**	**4,432**

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, 2017	Allocation of 2015 profit	2017 profit	Other	January 31, 2018
Capital	17,976			73	18,049
Share premium	25,218			565	25,782
ESI Software merger premium	9,677				9,677
Systus merger premium	2,854				2,854
Legal reserve	1,787	11			1,798
Retained earnings	30,927	1,621			32,548
Net profit for the year	1,632	(1,632)	5,547		5,547
Regulated provisions	1,084			260	1,344
TOTAL	**91,155**	**-**	**5,547**	**898**	**97,600**

Movements in the "Other" column reflect:

- The capital increase with the associated share issuance premium following the exercise of 24,450 share subscription options during the fiscal year;
- Accelerated capital allowances for an amount of €260 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)	6,016,442	24,450	-
O/w preferred shares (double voting rights)	2,241,491		-

The capital increase is attributable to the exercise of share subscription options for 24,450 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 (date of General Meeting)	Date of Board of Directors	Number of stock options/shares allotted or to be allotted	Number of stock options/shares granted	O/w performance shares	Number of existing stock options/shares at January 31, 2018	Exercise price	Limit year for exercising options
Plan 10 (GM of June 26, 2012)	12/19/2012		150,850	62,300	41,850	27.82	2020
	02/07/2014		11,000		375	24.42	2022
	03/26/2015		15,000		-	21.66	2025
	07/22/2015		3,150		3,150	27.17	2023
	Total	**180,000**	**180,000**	**62,300**	**45,375**		
Plan 15 (GM of July 23, 2013)	03/26/2015	294,538	20,000	20,000	-	21.66	2025
Plan 17 (GM of July 24, 2014)	07/22/2015		7,350		7,350	27.17	2023
	03/11/2016		10,000		-	27.17	2026
	05/05/2017		18,175		18,175	50.92	2025
	05/05/2017		1,875	1,875	1,875	50.92	2025
	Total	**180,000**	**37,400**	**1,875**	**27,400**		
Authorization given at the GM of July 2016		297,753					-
TOTAL STOCK-OPTIONS		952,291	237,400	84,175	72,775		
Plan 6 (GM of July 21, 2016)	07/21/2016		25,000	0	25,000	0	2020
Plan 7 (GM of July 21, 2016)	12/23/2016	60,000	2,275	0	2,068	0	2020
Plan 8 (GM of July 21, 2016)	08/01/2017		9,000	0	9,000	0	2021
TOTAL FREE SHARES		60,000	36,275	0	36,068		
TOTAL STOCK-OPTIONS AND FREE SHARES		**1,012,291**	**273,675**	**84,175**	**108,843**		

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

Note D.4. Conditional advances

(in € thousands)	January 31, 2018	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2017
Advance on Ademe financing agreement	402		402		162
Bpifrance advance	83	83			147
TOTAL	**485**	**83**	**402**	**0**	**310**

Note D.5. Provisions for contingencies and charges

(in € thousands)	January 31, 2017	Increase	Reversal used	January 31, 2018
Foreign exchange gains and losses (Note C.7)	1,044	1,540	(1,044)	1,540
Provisions for contingencies and charges (operating result)	383		(355)	28
Provision for retirement obligations	3,604	444	(55)	3,993
TOTAL	**5,031**	**1,983**	**(1,454)**	**5,561**

Provisions for contingencies and charges as at January 31, 2018 mainly correspond to the impact of changes in currency rates and labor-related risks.

The movements concerning provision allowance for retirement obligations breaks down as follows:

- €383 thousand for an operating allowance, o/w €277 thousand in costs for services rendered, €106 thousand in actuarial gains and losses and €-55 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, 2018	January 31, 2017
Discount rates	1.40%	1.70%
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, 2018	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2017
Banks borrowings (D.7)	37,251	10,630	18,258	8,363	44,103
Miscellaneous financial debt (D.8)	2,500	2,500			2,633
Down payments from clients	202	202			233
Trade payables	7,512	7,512			7,994
Group trade payables	30,137	30,137			30,529
Personnel and related receivables (D.9)	2,583	2,583			2,697
Payroll taxes (D.9)	2,268	2,268			2,151
Value-added tax (D.9)	1,662	1,662			1,409
Other tax expense (D.9)	479	479			462
Liabilities to fixed asset suppliers	4	4			65
Other operating payables - Group and associates (D.10)	13,968	13,968			9,096
Other operating payables - out of Group (D.10)	2,085	2,085			2,211
Deferred income	724	724			345
TOTAL	**101,375**	**74,754**	**18,258**	**8,363**	**103,927**

Note D.7. Bank borrowings

At January 31, 2018, bank borrowings stand at €37.251 million and break down as follows:

- €30.085 million related to the long term syndicated lines of credit;
- €1 million in long term borrowings from Bpifrance;
- €6 million in drawdowns from the revolving credit line;
- €165 thousand in accrued interest on borrowings.

The main source of funding for ESI Group is the syndicated loan signed in November 2015, consisting of long term lines of credit maturing in November 2022, with a partial annual amortization, and of revolving line of credit of €10 million.

At January 31, 2018, ESI Group has established hedging instruments for 40% of the nominal amount of long term lines. Moreover, short term line of €6 million of the revolving credit has been used. As of the date of approval of financial statements by the Board of Directors, the entire revolving line of credit has been paid off.

Off-balance-sheet commitments associated with this syndicated loan are presented in note F.4.

Note D.8. Miscellaneous financial debt

(in € thousands)	January 31, 2018	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2017
Employee profit sharing/interest accrued	0				133
Promissory note	2,500	2,500			2,500
TOTAL	**2,500**	**2,500**			**2,633**

Note D.9. Tax payables and employee-related liabilities

(in € thousands)	January 31, 2018	January 31, 2017
Provision for paid leave, including payroll taxes	2,518	2,257
Provision for bonuses to be paid to employees, including payroll taxes	1,177	1,387
Other payroll taxes	1,044	1,107
VAT collected	1,662	1,409
Other taxes	591	559
TOTAL	**6,991**	**6,719**

Note D.10. Other operating payables

(in € thousands)	January 31, 2017	Increase	Decrease	January 31, 2018
Creditor trade receivables	0	272		272
Subsidiaries current account	9,096	9,556	(4,684)	13,968
Advances on co-financed projects	2,096		(345)	1,752
Other liabilities	114		(48)	66
TOTAL	**11,307**	**9,827**	**(5,077)**	**16,508**

Note D.11. Foreign exchange gains and losses

These gains and losses pertain to the following balance sheet items:

(in € thousands)	January 31, 2018	January 31, 2017
Trade receivables	205	925
Trade payables	556	87
Intercompany receivables	415	2,079
Current accounts	0	189
TOTAL	**1,176**	**3,280**

Note D.12. Accrued expenses

(in € thousands)	January 31, 2018	January 31, 2017
Borrowings and financial debts	165	167
Trade payables	13,096	10,594
Provision for paid leave, including payroll taxes	2,518	2,257
Provision for bonuses to be paid to employees, including payroll taxes	1,177	1,387
Other tax expenses	169	354
Other liabilities (advances on co-financed projects)	1,752	2,096
Other liabilities	0	8
TOTAL	**18,876**	**16,863**

Note E. Details on income statement

Note E.1. Revenue

Breakdown by type:

(in € thousands)	January 31, 2018	January 31, 2017
Software licenses	13,449	13,983
Sub-contracting, consulting and other income	2,575	1,865
Royalties received from Group distribution subsidiaries	56,150	57,834
Sub-contracting, consulting and other income - Group	5,376	4,458
Income from related activities - Group	1,544	1,638
Management fees Group	4,790	4,535
TOTAL	**83,884**	**84,313**

Breakdown by geographic area:

(in € thousands)	January 31, 2018	January 31, 2017
France	11,607	9,905
Europe (except France)	27,715	21,668
Americas	13,082	13,884
Asia	31,480	38,856
TOTAL	**83,884**	**84,313**

Note E.2. Other income from operations

(in € thousands)	January 31, 2018	January 31, 2017 Published	January 31, 2017 Restated[1]
Production held as inventory	(500)	543	543
Capitalized production	29,540	28,467	28,467
Reversal on depreciation and amortization	395	675	675
Reversal on change provision on trade receivables and payables	1,044		560
Foreign exchange gains on trade receivables and payables	1,310		1,074
Other income	141	175	175
TOTAL OTHER INCOME	**31,930**	**29,860**	**31,494**

(1) Please refer to note A.2.

Note E.3. Other purchases and external expenses

(in € thousands)	January 31, 2018	January 31, 2017
Engineering studies and other services	8,104	9,055
Engineering studies and other services - Group	17,300	18,159
Research and development costs - Group	20,715	19,567
Materials and supplies	270	305
Leases and rental expenses	3,845	3,642
Maintenance and repairs	1,667	1,543
Insurance	302	302
Payments to intermediaries and fees	2,242	1,884
Royalties on third-party products and sales commissions	1,721	2,942
Advertising, external relations	918	897
Travel expenses	2,218	1,557
Postage, telecommunications expenses	491	516
Miscellaneous	712	603
TOTAL	**60,506**	**60,973**

Note E.4. Income tax expense

(in € thousands)	January 31, 2018	January 31, 2017
Corporate Value-Added Contribution (CVAE)	734	583
Corporate Real Estate Contribution (CFE)	127	129
Apprenticeship, continuing education and construction-related taxes	313	291
Other taxes	210	244
TOTAL	**1,384**	**1,246**

Note E.5. Operating allowances

(in € thousands)	January 31, 2018	January 31, 2017 Published	January 31, 2017 Restated(1)
Amortization allowance for development costs	25,391	24,831	24,831
Amortization allowance for other intangible assets	661	875	875
Amortization allowance for tangible assets	857	837	837
Amortization allowance for capitalized expenses to be amortized	75	75	75
Provision for impairment of trade receivables	435	623	623
Provision for retirement obligations	382	343	343
Provision for change on trade receivables and payables	1,540		1,044
Provision for contingencies and charges		75	75
TOTAL	**29,341**	**27,659**	**28,702**

(1) Please refer to note A.2.

Note E.6. Other operating expenses

(in € thousands)	January 31, 2018	January 31, 2017 Published	January 31, 2017 Restated(1)
Royalties	58	56	56
Directors' fees	138	147	147
Foreign exchange losses on trade receivables and payables	1,291		1,086
Miscellaneous expenses	2	9	9
TOTAL	**1,489**	**212**	**1,298**

(1) Please refer to note A.2.

Note E.7. Financial income

(in € thousands)	January 31, 2018	January 31, 2017 Published	January 31, 2017 Restated[1]
Foreign exchange gain/(loss) realized	(544)	(230)	(230)
Unrealized foreign exchange gain/(loss)		(484)	(484)
Realized change result on trade receivables and payables provision			495
Interest on borrowings	(840)	(868)	(868)
Interest on subsidiaries current account	86	39	39
Provision for retirement obligations	(61)	(61)	(61)
Provision for impairment equity investments	(456)	(827)	(827)
Reversal provision for investments	0	13	13
AVIC ESI dividend	0	31	31
ESI Japan, Ltd dividend	3,921		
Other financial income/(expenses)	(102)	(105)	(105)
TOTAL	**2,004**	**(2,492)**	**(1,997)**

(1) Please refer to note A.2.

Note E.8. Exceptional income

(in € thousands)	January 31, 2018	January 31, 2017
Profit or loss on movements of treasury shares	(61)	(25)
Accelerated capital allowances	(260)	(326)
Exceptionnal amortization[1]	(185)	
Reversal of exceptional accrual	105	
Exceptional expense on treasury shares sales		22
Produit cession actions propres lié à l'acquisition de Scilab Enterprises (please refer to note A.1.)	468	
Presto additional payment	(71)	(148)
Miscellaneous	22	(244)
TOTAL	**18**	**(721)**

(1) This exceptional amortization of €185 thousand corresponds to an accelerated amortization of Rungis office fixtures and fittings because of a future relocation in July 2018.

Note F. Other information

Note F.1. Average headcount

(in full-time equivalent)	January 31, 2018 Headcount	January 31, 2017 Headcount
Executives	224	214
Office personnel	19	20
TOTAL	**243**	**234**

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, 2018	January 31, 2017
Wages	471	473
Benefits in kind	45	49
Directors' fees	16	16
Compensation paid by controlled companies	428	426
Fringe benefits paid by controlled companies	152	158
TOTAL	**1,113**	**1,121**

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	1,162	8,493
Movable property rentals	1,365	165
TOTAL	**2,527**	**8,658**

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 2.7 at January 31, 2018 (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, 2018, 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, 2018, 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 since January 31, 2017.

In terms of managing exposure to fluctuations in exchange rates and interest rates, ESI Group uses the following financial instruments, recognized under financial result for interest rate instruments an in operating result for change instruments:

- Interest rate derivatives:
  - Three swaps in a nominal amount of €1.5 million as of January 31, 2018, 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 €2.4 million, as of January 31, 2018, 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.
  - One swap in a nominal amount of €0.5 million, as of January 31, 2018, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying fixed rates of 0.30.
  - At January 31, 2018, the market value of these instruments was -€36 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, 2018 concerned, US dollar (term purchase) Japanese yen (forwards, tunnels, targets), South Korean won (non-delivery forwards) and Indian rupee (non-delivery forwards).
  - At January 31, 2018, the market value of these instruments was €113 thousand.
  - Currency hedging instruments subscribed at January 31 2018, with maturities falling planned for the next year correspond to asymmetric tunnels sellers of Japanese yen with borders of 130,7-134 for amounts respectively of JPY 1,006 million and JPY 805 million.

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 second payment carried out during the fiscal year ended January 31, 2018 was recognized in exceptional items.

Pledges

At January 31, 2018, ESI Group had a rent security deposit with Crédit du Nord in an amount of €82 thousand, established in November 2012 and expiring November 28, 2021 plus 6 months.

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)	3,300	(3,960)[1]	(660)	(526)	2,774
Exceptional income	18	21	40		18
Competitiveness and employment tax credit				160	160
French R&D tax credit				2,594	2,594
TAX INCOME (LOSS)	**3,319**	**(3,939)**	**(620)**	**2,228**	**5,547**

(1) The retreatment of € 3,960 thousand corresponds mostly to dividend received from ESI Japan for €3,921 thousand.

The tax expense of €526 thousand at January 31, 2018, in a negative tax result context, corresponds to losses on foreign tax certificates that cannot be used for payment of income tax during this fiscal year.

Note F.6. Increases and decreases in future tax liabilities

(in € thousands)	January 31, 2018
Special social security contribution (*contribution sociale de solidarité*)	82
Translation differences	1,176
Interest	868
TOTAL TEMPORARY DIFFERENCES	**2,126**
NET DECREASE IN FUTURE INCOME TAX LIABILITIES (TAX RATE OF 33.33%)	**709**

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.

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Note F.8. Table of controlled entities and affiliates (at January 31, 2018)

(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	Carrying amount of shares held 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	2,537	100.0	458	458	(1,505)		17,097	154	
STRACO	France	499	2,993	97.7	1,789	1,789	(521)		0	1	
ESI Japan, Ltd.	Japan	99	1,037	97.0	75	75			26,325	812	3,921
Hankook ESI Co., Ltd.	South Korea	1,112	(2,346)	98.8	941	941			6,673	(114)	
ESI North America, Inc.	USA	0	(1,916)	100.0	3,726	3,726	7,787		22,435	314	
ESI Group Hispania s.l.	Spain	100	(769)	100.0	100	100	1,020		4,161	77	
Mecas ESI s.r.o.	Czech Republic	16	1,194	95.0	912	912	(2,232)		8,597	614	
ESI UK Limited	United Kingdom	114	915	100.0	164	164			4,295	154	
ESI US R&D, Inc.(1)	USA	194	1,141	74.0	111	111			9,759	142	
Calcom ESI SA	Switzerland	83	293	98.5	2,678	2,678			3,234	41	
Zhong Guo Co., Ltd	China	0	210	100.0	193	0			0	(7)	
ESI Software (India) Private Ltd	India	1	4,242	100.0	2	2			10,307	1,055	
Hong Kong ESI Co., Limited	China	1	(752)	100.0	119	0	902		0	0	
ESI-ATE Holdings Limited	China	10	(868)	100.0	1,737	0	1,823		0	0	
ESI Italia s.r.l.	Italy	500	647	100.0	1,050	1,050			4,494	(235)	
ESI South America Comércio e Serviços de Informática, Ltda	Brazil	9	31	95.0	6	6			971	77	
ESI Services TUNISIA	Tunisia	107	608	95.0	242	242			553	266	
ESI Group Beijing Co., Ltd	China	602	1,046	100.0	543	543			3,515	215	
ESI Software Germany GmbH	Germany	517	5,665	100.0	10,708	10,708			8,895	502	
Efield AB	Sweden	10	629	100.0	446	446			1,388	46	
OpenCFD Limited	United Kingdom	0	151	100.0	2,351	1,701	(119)		1,042	(276)	
CyDesign Labs, Inc.	USA	1,127	(523)	99.9	1,904	578			0	(2)	
ESI Services Vietnam Co., Ltd	Vietnam	73	49	100.0	124	124			222	15	
CIVITEC	France	1,125	(610)	80.0	900	900			233	(415)	
ITI GmbH	Germany	26	1,239	96.0	17,952	17,952	(1,039)		6,340	(49)	
Mineset Inc.	USA	0	126	100	4,017	4,017			2,161	119	
SAS Scilab Enterprises	France	424	(507)	100	550	550	(143)		637	(279)	
2. 10-50% owned subsidiaries											
ESI US Holding, Inc.	USA	588	(476)	49.0	796	796			0	(6)	
AVIC-ESI	China	1,275	547	45.0	576	576			4,669	89	

(1) ESI US R&D, Inc.: direct interest = 49%; indirect via US Holdings = 25%.

The data at January 31,2018 of the table of controlled entities and affiliates is a non audited data.

Note F.9. Subsequent events

There are no subsequent events.

5.2.4. Statutory Auditors' report on the financial statements

This is a translation into English of the Statutory Auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the management report and other documents provided 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, 2018

To the General Meeting of ESI Group,

Opinion

In compliance with the engagement entrusted to us by your General Meeting, we have audited the accompanying financial statements of ESI Group for the year ended January 31, 2018.

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, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from February 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics *(Code de déontologie)* for Statutory Auditors.

Emphasis of matter

We draw attention to the following matter described in paragraph A.2 in the notes to annual financial statements, which sets out the impact of the change in accounting method resulting from the application of the ANC regulation 2015-05 on forward financial instruments and hedging transactions, mandatory for fiscal years beginning on or after January 1, 2017. Our opinion is not modified in respect of this matter.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Capitalization of development costs

Risk identified

In the balance sheet of the Company, fixed assets include capitalized development costs. As of January 31, 2018 their net book value amounts to €23,541 thousand. They correspond mostly to direct labor costs as well as sub-contracting, incurred for the development of new annual versions or major improvements of existing ESI software.

As indicated in paragraph B.2 of the notes to annual financial statements, capitalization of development costs is subject to compliance with the six criteria set out in the French accounting rules and principles.

Capitalized development costs start to be amortized after the market release of the related version of the software. Capitalized expenses are amortized on a straight-line basis over a period of 12 months for new annual versions of software, and over 24 or 36 months for major improvements to existing products, depending on the degree of innovation.

ESI Management set out procedures and rules to ensure that:

- The process to distinguish between research and development costs is respected;
- Capitalized development costs met all capitalization criteria; and
- Useful life period over which each project is amortized is adapted to the nature / level of innovation of the project.

However, regarding the significant impact on the income statement of capitalization of development costs and the significant balance of these capitalized costs recorded as assets in the balance sheet, it follows that any deviation from the procedures in place or any misinterpretation of the capitalization criteria could lead to significant impacts on the Company's annual financial statements and financial performance.

The assessment of compliance with the criteria for capitalization of development costs, as well as the determination of the amortization period depending on the nature of the project, are very much based on Management's judgment and the reliability of the procedures applied for the identification and allocation of expenses between the different projects.

On this basis, we considered capitalization of development costs as a key audit matter.

Our response

We examined the compliance of the Company's accounting treatment of research and development costs with current accounting standards.

We also conducted a critical review of how this methodology was implemented. In particular, we conducted the following procedures:

- We have taken notice of the procedure followed by the Company to distinguish between research and development costs and, for the latter, the rules put in place to assess compliance with the capitalization criteria laid down in French accounting rules and principles;
- We tested by sampling the correct application of the procedures implemented for the identification, monitoring and recording of research and development costs;
- We audited, for a selection of projects, the correct application of the capitalization criteria set out in French accounting rules and principles and tested the accuracy and completeness of the most significant expenses charged to these projects;
- We verified the correct calculation of amortization expense mainly by controlling the correct application of the rules for setting the straight-line amortization period, depending on the nature of the project (major improvement or new version).

We have reconciled accounting and management data in order to assess the accuracy and completeness of information reporting process for recording.

Valuation of equity investments

Risk identified

In the balance sheet as of January 31, 2018, net book value of equity investments amounts to €53,026 thousand. At acquisition date, equity investments are valued at acquisition cost, which includes the purchase price and the costs directly attributable thereto. At each year-end, the net book value of equity investments is compared with its value in use, and if the value is lower than the net book value, a provision for depreciation is recorded in order to reduce the book value to the value in use of the asset.

The different methods used to determine the value in use of equity investments are described in paragraph B.4 of the notes to annual financial statements and are detailed as follows:

- 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.

Estimating the value in use of equity investments requires the exercise of Management's judgment in identifying the criteria determining the choice of valuation method to be applied and the factors to be considered depending on the participating interests, particularly historical items (equity) or forecasts (profitability forecasts and economic conditions in related countries).

We therefore considered equity investments valuation as a key audit matter.

Our response

We examined the compliance of the Company's methodology for the valuation of equity investments with the applicable accounting standards.

Our work consisted of reviewing the justification provided by Management for the valuation method chosen and the data used. Our review of the methodology applied, for both types of equity investments, is detailed as follows:

For shares in active subsidiaries:

- Obtaining the multiple of revenue adjusted for net cash position of the subsidiary and assessing the consistency of the data used with the accounts of the corresponding entities;
- Review of the permanence of the calculation method used and its execution;
- Obtaining the cash flow and operating forecasts of the entities concerned and assessing their consistency with the forecast data from the latest strategic plans, drawn up under the control of Senior Management and approved by the Board of Directors;
- Review of the consistency of assumptions used with the economic environment at the closing date;
- Comparison of the forecasts retained for previous periods with corresponding achievements in order to assess the achievement of past objectives;
- Verification that the value resulting from the cash flow forecasts has been adjusted for the indebtedness of the entity.

For shares in dormant subsidiaries or those with reduced activity levels:

- Reconciliation of net equity attributable to ESI Group retained for the valuation with the accounts of the concerned entities and, if applicable, examination of the documentation justifying the adjustments made.

Verification of the management report and of the other documents provided to the shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information provided in the management report and in the other documents provided to the shareholders with respect to the financial position and the financial statements

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 other documents provided to the Shareholders with respect to the financial position and the financial statements.

Report on Corporate Governance

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code *(Code de commerce).*

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code *(Code de commerce)* relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on these procedures, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your Company considered likely to have an impact in the event of a public purchase offer or exchange, provided pursuant to Article L. 225-37-5 of the French Commercial Code *(Code de commerce),* we have agreed these to the source documents communicated to us. Based on our work, we have no observations to make on this information.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of ESI Group by the General Meeting held on June 25, 2009 for PricewaterhouseCoopers Audit and on December 16, 1997 for Ernst & Young Audit.

As at January 31, 2018, PricewaterhouseCoopers Audit and Ernst & Young Audit were in the 9th year and 21th year of total uninterrupted engagement (which are the 18th year since securities of the Company were admitted to trading on a regulated market) respectively.

Responsibilities of Management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the financial statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code *(Code de commerce),* our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

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As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the financial statements;
- Assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code *(Code de commerce)* and in the French Code of Ethics *(Code de déontologie)* for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Paris-La Défense, May 23, 2018

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, 2018
2. Approval of the consolidated financial statements for the fiscal year ended January 31, 2018
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 Ms. Véronique Jacq
6. Reappointment of Ms. Rajani Ramanathan
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. Approval of the components of the total compensation payable or allocated to Mr. Alain de Rouvray, Chief Executive Officer, for the 2017 financial year
9. Approval of the components of the total compensation payable or allocated to Mr. Vincent Chaillou, Chief Operating Officer, for the 2017 financial year
10. Approval of the components of the total compensation payable or allocated to Mr. Christopher St.John, Chief Operating Officer, for the 2017 financial year
11. Determination of the compensation paid to the members of the Board of Directors (Directors' fees)
12. 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

13. Authorization to be granted to the Board of Directors to reduce the share capital through the cancellation of shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code
14. Authorization to be granted to the Board of Directors to award free shares to eligible employees and executive corporate officers of the Company and of its affiliated companies.

Joint decisions

15. 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, 2018

Statement of reasons

Based on the review of the Management report of the Board of Directors, the report of the Board of Directors on corporate governance, the reports of the Statutory Auditors on the parent company financial statements, the General Meeting is requested to approve the parent company financial statements for the fiscal year ended January 31, 2018, showing a profit of €5,546,967.47.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Management report of the Board of Directors, the report of the Board of Directors on corporate governance, and the reports of the Statutory Auditors on the parent company financial statements and the parent company financial statements for the fiscal year ended January 31, 2018, approves the financial statements and balance sheet, as presented, showing a profit of €5,546,967.47.

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 €201,248.

Second resolution

Approval of the consolidated financial statements for the fiscal year ended January 31, 2018

Statement of reasons

Based on the review of the Management report of the Board of Directors, the report of the Board of Directors on corporate governance, and the reports of the Statutory Auditors on the consolidated financial statements, the General Meeting is requested to approve the consolidated financial statements for the fiscal year ended January 31, 2018.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Management report of the Board of Directors, the report of the Board of Directors on corporate governance, and the reports of the

Statutory Auditors on the consolidated financial statements and the consolidated financial statements as at January 31, 2018, 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 €5,546,967.47 as follows:

€7,335 to the legal reserve;

€5,539,632.47 to retained earnings.

Following this allocation, the balance of the legal reserve will stand at €1,804,932.60

Following this allocation, retained earnings will stand at €38,088,140.54.

The Board of Directors reminds the General Meeting that no dividends have been paid out for the past three fiscal years.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, acknowledging that the net profit for the year ended January 31, 2018 stands at €5,546,967.47, decides, at the Board of Directors' recommendation, to allocate this profit as follows:

Current position:

- Net profit for the year: €5,546,967.47
- Retained earnings: €32,548,508.07
- Total to be allocated: €38,095,475.54

Allocated as follows:

- €7,335 to the legal reserve;
- €5,539,632.47 to retained earnings.

Following this allocation, the balance of the legal reserve will stand at €1,804,932.60.

Following this allocation, retained earnings will stand at €38,088,140.54.

The General Meeting notes that no dividends have been paid out for the past three fiscal years.

Fourth resolution

Approval of the agreements referred to in Article L. 225-38 of the French Commercial Code

Statement of reasons

Based on the special report by the Statutory Auditors on regulated agreements, the General Meeting is requested to acknowledge that during the 2017 financial year only one agreement gave rise to the procedure provided for in Articles L. 225-38 et seq. of the French Commercial Code.

It should be noted that on April 15, 2015 the Company and Ms. Cristel de Rouvray, Director, concluded a Consulting Service Agreement. This Agreement is regarded as a regulated agreement referred to in Article L. 225-38 of the French Commercial Code and was earlier authorized by the Board of Directors held on April 14, 2015. This Agreement was renewed under the same conditions for the 2016 financial year, and was reviewed by the Board of Directors held on April 8, 2016.

On the recommendation of the Compensation, Nomination and Governance Committee held on March 28, 2017, the Board of Directors held on April 18, 2017 decided to renew the Agreement while modifying its terms to meet the market conditions. This new Agreement between ESI North America Inc. and Ms. de Rouvray was signed based on an estimated maximum annual cost of $ 100,000 for an average of 52 hours per month.

Following the review by the Compensation Committee held on April 16, 2018, it was recommended to renew the Agreement under the same conditions for the 2018 financial year. The Board of Directors held on April 17, 2018 approved this renewal.

The objective of this consulting contract is to entrust to Ms. de Rouvray specific missions relating to Human Resources, consulting and strategic management.

It should be noted that the special report by the Statutory Auditors on the agreements referred to in Article L. 225-38 of the French Commercial Code is presented in Section 2.7.3 of the 2017 Registration Document and will be submitted for approval of the General Meeting to be held on July 18, 2018.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, 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 Ms. Véronique Jacq

Statement of reasons

As the directorship of Ms. Véronique Jacq 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 in 2022 to approve the financial statements for the 2021 financial year.

The Board of Directors reminds the General Meeting that Ms. Véronique Jacq has been an independent director since 2014. She is currently a member of the Audit Committee and the Technology and Marketing Committee. Her biography is presented in the report of the Board of Directors on corporate governance.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the report of the Board of Directors, and noting that the term of office of Ms. Véronique Jacq 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 in 2022 to approve the financial statements for the 2021 financial year.

Sixth resolution

Reappointment of Ms. Rajani Ramanathan

Statement of reasons

As the directorship of Ms. Rajani Ramanathan 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 in 2022 to approve the financial statements for the 2021 financial year.

The Board of Directors reminds the General Meeting that Ms. Rajani Ramanathan has been an independent director since 2014. She is currently Chair of the Technology and Marketing Committee and a member of the Compensation, Nomination and Governance Committee. Her biography is presented in the report of the Board of Directors on corporate governance.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the report of the Board of Directors, and noting that the term of office of Ms. Rajani Ramanathan expires at the end of the General Meeting, resolves to renew her directorship for a term of four years, expiring at the end of the General Meeting to be convened in 2022 to approve the financial statements for the 2021 financial year.

Seventh resolution

Approval of the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components of 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 components of the total compensation and benefits of all types attributable to the corporate executive officers, due to their mandate.

These principles and criteria are presented in the report of the Board of Directors on corporate governance and are included in Section 2.6.1 of the 2017 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 components of 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 on corporate governance mentioned in Article L. 225-37 of the French Commercial Code, and presented in the 2017 Registration Document (Chapter 2.6.1.).

Eighth, ninth and tenth resolutions

Approval of the fixed, variable and exceptional components of the total compensation payable or allocated to Chief Executive Officer and Chief Operating Officers for the 2017 financial year

Statement of reasons

In application of Article L. 225-100-II of the French Commercial Code, as amended by the French "Sapin II" Law on Transparency, Anti-Corruption and Modernization of Economic Life, the General Meeting is requested every year as of 2018 to approve the fixed, variable and exceptional components of the total compensation and benefits of all kinds payable or allocated to the corporate executive officers for the ended financial year due to their mandate.

These components of the compensation are presented in the report of the Board of Directors on corporate governance and are included in Section 2.6.2. of the 2017 Registration Document.

Eighth resolution

Approval of the components of the total compensation payable or allocated to Mr. Alain de Rouvray, Chief Executive Officer, for the 2017 financial year

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, in application of Article L. 225-100-II of the French Commercial Code, approves the fixed, variable and exceptional components of the total compensation and benefits of all kinds paid or allocated to Mr. Alain de Rouvray, Chief Executive Officer, for the 2017 financial year, as set out in the report on corporate governance mentioned in Article L. 225-37 of the French Commercial Code, and presented in the 2017 Registration Document (Chapter 2.6.2.).

Ninth resolution

Approval of the components of the total compensation payable or allocated to Mr. Vincent Chaillou, Chief Operating Officer, for the 2017 financial year

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, in application of Article L. 225-100-II of the French Commercial Code, approves the fixed, variable and exceptional components of the total compensation and benefits of all kinds paid or allocated to Mr. Vincent Chaillou, Chief Operating Officer, for the 2017 financial year, as set out in the report on corporate governance mentioned in Article L. 225-37 of the French Commercial Code, and presented in the 2017 Registration Document (Chapter 2.6.2.).

Tenth resolution

Approval of the components of the total compensation payable or allocated to Mr. Christopher St.John, Chief Operating Officer, for the 2017 financial year

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, in application of Article L. 225-100-II of the French Commercial Code, approves the fixed, variable and exceptional components of the total compensation and benefits of all kinds paid or allocated to Christopher St.John, Chief Operating Officer, as set out in the report on corporate governance mentioned in Article L. 225-37 of the French Commercial Code, and presented in the 2017 Registration Document (Chapter 2.6.2.).

Eleventh 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 the 2018 financial year at €180,000.

It should be noted that in its previous decision, the General Meeting of June 29, 2017 also set the total amount at €180,000.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, decides to set the compensation paid to the members of the Board of Directors in the form of Directors' fees at €180,000 for the 2018 financial year.

The Board will freely distribute this amount among its members.

Twelfth 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 December 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 (eighteen) months as from the General Meeting of July 18, 2018.

It is proposed to set the maximum purchase price at €80 (eighty) 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, 6,76% at the end of the 2017 fiscal year. The Company will not be allowed to pay out more than €15,000,000 (fifteen millions) 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:

1. Authorizes the Board of Directors to purchase the Company's shares, not to exceed 10% of its capital, for a period of 18 months beginning on July 18, 2018, 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;

2. Decides that the purchase price per share may not exceed €80 (eighty);
3. Decides to fix the maximum amount that the Company may spend within the framework of this buy-back program at €15,000,000 (fifteen millions);
4. Acknowledges that this authorization shall render ineffective the previous authorization granted by the ninth resolution of the Combined General Meeting of June 29, 2017 authorizing the Board to trade in its own shares;
5. Decides that the 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.
6. Acknowledges that 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.
7. 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.

The Board of Directors shall inform shareholders of any purchases or sales carried out pursuant to this authorization in its management report.

6.2. Decisions falling within the competence of the Extraordinary General Meeting

Thirteenth resolution

Authorization to be granted to the Board of Directors to reduce the share capital through the cancellation of shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code

Statement of reasons

The authorization granted to the Board of Directors in 2016 to cancel shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code is due to expire in September 2018.

It is proposed that the Annual General Meeting give the Board a new authorization allowing it to carry out share cancellations, subject to the legal limits and the limit of 10% of the share capital at the day of operation. This authorization shall be granted for a duration of 26 (twenty-six) months from the Annual General Meeting of July 18, 2018 and shall render ineffective all previous authorizations.

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:

1. Authorizes the Board of Directors, with the right to sub-delegate, in accordance with the legal and regulatory requirements, pursuant to Article L. 225-209 of the French Commercial Code, to:
   - Cancel, at its sole discretion, on one or more occasions, the shares purchased by the Company on the basis of the authorization given by the Ordinary General Meeting in the twelfth resolution (provided that this resolution is adopted) or any similar resolutions adopted by previous General Meetings, within the limit of 10% of its share capital, this percentage applying to the share capital as subsequently adjusted following transactions after this General Meeting, per 24 (twenty-four) months period, and
   - Conduct, for the same amount, a reduction in share capital by cancelling shares;
2. Gives to the Board of Directors all powers, with the right to sub-delegate, in accordance with the legal and regulatory requirements, pursuant to Article L. 225-209 of the French Commercial Code, to:
   - Determine the final amount of the capital reduction within the limits provided by the law and by this resolution,
   - Set the terms for said operation and record its completion,
   - Deduct the difference between the book value of the cancelled shares and their par value from the available reserves and premiums at the choice of the Board,
   - Carry out all deeds, formalities, or declarations in order to record and finalize the capital reductions that may be conducted in accordance with this authorization and that would result in subsequent amendment to the articles of association;
3. Acknowledges that this authorization shall render ineffective the previous authorization granted by the ninth resolution of the Extraordinary General Meeting held on July 21, 2016.

This authorization is granted to the Board of Directors for a duration of 26 (twenty-six) months from this General Meeting.

Fourteenth resolution

Authorization to be granted to the Board of Directors to award free shares to eligible employees and executive corporate officers of the Company and of its affiliated companies

Statement of reasons

In order to benefit from the new favorable tax and social security treatment, it is proposed that the General Meeting cancel its authorization given to the Board of Directors in 2016 and grant a new authorization to carry out free grants of shares to employees and executive corporate officers of the Company and its affiliates.

Under the scope of this authorization, the number of free shares that may be granted may not exceed 60,000 shares, representing around 1% of the share capital existing on July 18, 2018.

The Board of Directors will decide the identity of the beneficiaries of the grants, the number of shares allocated to each one, the terms, and, where applicable, the criteria for such share grants.

The Board of Directors will be able to set, in accordance with the provisions of Article L. 225-197-1 of the French Commercial Code, the duration of vesting and holding periods, provided that the time condition respects a minimum vesting period of at least one year and the total duration of both vesting and holding periods is at least two years. In application of Article L. 225-197-1 of the French Commercial Code, the free grant of shares to their beneficiaries will become final and binding subject to the satisfaction of the other conditions set at the time of the grant, and specifically the employment condition and/or the performance condition, after a vesting period set out by the Board of Directors.

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 Article L. 225-197-1 *et seq.* of the French Commercial Code:

1. Authorizes the Board of Directors to carry out, on one or several occasions, free grants of existing shares or shares to be issued by ESI Group, to employees and executive corporate officers of the Company or its affiliated entities, in accordance with Article L. 225-197-2 of the French Commercial Code and the conditions set out hereinafter;
2. Resolves that the Board of Directors will decide the identity of the beneficiaries of the grants, the number of shares allocated to each one, as well as the conditions, and, where applicable, the criteria for such share grants;
3. Decides that the number of free shares that may be granted under the scope of this authorization may not exceed 60,000 shares, representing around 1% of the share capital existing on July 18, 2018;
4. Decides that the Board of Directors will be able to set, in accordance with the provisions of Article L. 225-197-1 of the French Commercial Code, the duration of vesting and holding periods, provided that the time condition respects a minimum vesting period of at least one year and the total duration of both vesting and holding periods is at least two years;
5. Decides that the free grant to their beneficiaries will become final and binding after a vesting period set out by the Board of Directors;
6. Authorizes the Board of Directors to vest the shares prior to the end of the vesting period as well as to permit the free transfer of these shares in the event the beneficiary has a disability corresponding to the second or third categories defined by Article L. 341-4 of the French Social Security Code;
7. Decides that the Board of Directors shall have all powers, including powers of sub-delegation in accordance with the legal requirements, to implement this authorization, and, in particular, in order to:
   - Determine whether to grant existing shares or whether to issue shares for such purpose,
   - Determine all the terms relating to the granting of shares, in particular the conditions under which such shares will be vested (especially the presence and performance conditions), define the categories of beneficiaries, the beneficiaries and establish the number of shares granted to each of them and the grant date or dates in compliance with the law and regulations in force as of the date of transactions contemplated,
   - Adjust, during the vesting period, if it deems necessary, the number of shares granted in order to protect the rights of the beneficiaries, in compliance with the laws and regulations in force as of the date of the transactions contemplated, based on potential Company equity transactions, it being specified that the shares, granted further to these adjustments, shall be deemed granted on the same date as, that of the initial share grant, and
   - More generally, to take all necessary measures, in particular to conclude any and all agreements and contracts to effect the closing of an issuance, to carry out any and all formalities to effect the related share capital increase or increases subsequent to the vesting of Company shares, to amend the articles of association;
8. Acknowledges that this authorization automatically entails the waiver by shareholders of their preferential subscription rights to ordinary Company shares which may be issued for the purposes of the vesting of free shares, and of all rights to ordinary shares granted under the scope of this authorization;
9. Acknowledges that this authorization supersedes the unused portion of the previous authorization granted by the tenth resolution of the Extraordinary General Meeting held on July 21, 2016.

Each year, in accordance with the legal and regulatory requirements, in particular pursuant to Article L. 225-197-4 of the French Commercial Code, the Board of Directors shall inform the General Meeting about the operations carried out under this authorization.

This authorization is granted to the Board of Directors for a duration of 38 (thirty-eight) months from the date of this Meeting.

6.3. Joint decisions

Fifteenth 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 1 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 FY 2017.

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

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 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)

Form

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

Transfer of shares

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

7.1.3. Information concerning administrative and management bodies

Information on 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 (Article 8 of the articles of association)

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, 2018, the Company's share capital stood at €18,049,326. It was divided into 6,016,442 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.

1 2 3 4 5 6 7 8

TABLE SUMMARIZING CURRENTLY VALID DELEGATIONS GRANTED TO THE BOARD OF DIRECTORS AND USE OF SUCH DELEGATIONS DURING THE FISCAL YEAR 2017

Resolution number	Purpose	Term	Expiration date	Maximum	Use in 2017 and available balance as of January 31, 2018
COMBINED GENERAL MEETING OF JULY 24, 2014					
Resolution 9	Grant of stock options[1]	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 during the year 2017: **20,050**[2] Options granted at January 31, 2018: **37,400** Options remaining: **0**
COMBINED GENERAL MEETING OF JULY 21, 2016					
Resolution 9	Share capital reduction 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	Grant of 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 granted during the year 2017: **9,000** Free shares granted at January 31, 2018: **36,275** Options remaining: **23,725**
COMBINED GENERAL MEETING OF JUNE 29, 2017					
Resolution 9	Company's purchase of its own shares	18 months	December 2018	Not to exceed 10% of the Company's share capital	None
Resolution 10	Grant of stock subscription options	38 months	August 2020	Not to exceed 3% of the Company's share capital at the date of the Combined General Meeting, *i.e.* 180,000 shares	Options granted at January 31, 2018: **None** Options remaining: **180,000**
Resolution 11	Grant of stock purchase options	38 months	August 2020	Not to exceed 5% of the Company's share capital at the date of the Combined General Meeting, *i.e.* 299,600 shares	Options granted at January 31, 2018: **None** Options remaining: **299,600**
Resolution 12	Increase of the share capital via the issue of shares of common stock or any securities convertible into equity with maintenance of the shareholders' preferential subscription rights	26 months	August 2019	Global amount of capital increases: less than €20,000,000 Nominal amount of the debt securities: less than €300,000,000	None
Resolution 13	Increase of the share 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	26 months	August 2019	Global amount of capital increases: less than €20,000,000 Nominal amount of the debt securities: less than €300,000,000	None
Resolution 14	Increase of the issue amount in the event of over-demand	26 months	Within 30 days of the closure of the initial issue	Not to exceed 15% of the value of the original issue (referred to in resolutions 12 and 13), and the total ceiling of €20,000,000	None
Resolution 15	Increase of the share capital by the capitalization of premiums, reserves, profits and other amounts	26 months	August 2019	Not to exceed the total amount of reserves, premiums and profits existing at the time of the capital increase or a ceiling of €100,000 (that might be reduced to the amount of capital increases undertaken pursuant to resolutions 12 to 17)	None
Resolution 16	Issue of shares without preferential subscription rights as compensation for contributions of shares equivalents granted to the Company as part of a contribution in kind	26 months	August 2019	Not to exceed 10% of the Company's share capital, and the total ceiling of €20,000,000	None
Resolution 17	Increase of the share capital without preferential subscription rights through private placement	26 months	August 2019	Not to exceed 20% of the Company's share capital, and the total ceiling of €20,000,000	None
Resolution 18	Increase of the share capital by issuing shares reserved for employees enrolled in the employee savings plan	26 months	August 2019	Not to exceed 2% of the Company's share capital	None

(1) The authorization granted by the tenth resolution of the General Meeting held on June 29, 2017 superseded the unused portion of the previous authorization granted by the General Meeting held on July 24, 2014.
(2) This refers to the grant of 20,050 subscription stock-options decided by the Board of Directors held on May 5, 2017.

Non-equity securities

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

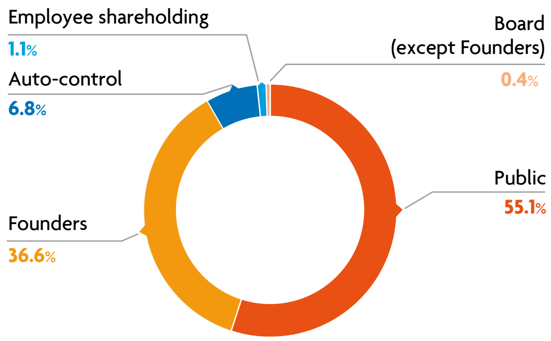
7.2.3. History of changes in share capital

Meeting date	Operation type	Change in share capital Issue of cash shares			Resulting total share capital	Total number of shares	Par value *(in €)*
		Par value *(in €)*	Premium *(in €)*	Number of shares created			
EGM of 01/28/1991	Incorporation of the Company	15.24		2,500	38,112	2,500	15.24
EGM of 07/26/1991	Capital increase in cash	15.24	(2,274,021)	834	50,827	3,334	15.24
EGM of 07/26/1991	Capitalization of share premium	15.24	(2,261,779)		2,312,606	3,334	694
EGM of 07/31/1991	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 03/26/1997	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 04/24/1997	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 03/15/1999	Capital increase in cash	1.52	4,364,334	524,902	6,958,752	4,564,642	1.52
EGM of 07/08/1999	Capitalization of share premium	1.52	4,175,251		11,134,003	4,564,642	2.44
EGM of 06/14/2000	Capital increase in cash	2.44	2,783,502	1,141,161	13,917,505	5,705,803	2.44
BoD meeting of 05/09/2001	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 06/14/2000))	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 03/08/2002	Share capital adjustment Exercise of share subscription options	3	7,500	2,500	17,251,881	5,750,627	3
BoD meeting of 03/08/2005	Share capital adjustment Exercise of share subscription options	3	301,500	100,500	17,553,381	5,851,127	3
BoD meeting of 06/07/2007	Share capital adjustment Exercise of share subscription options	3	36,156	12,052	17,589,537	5,863,179	3
BoD meeting of 04/14/2008	Share capital adjustment Exercise of share subscription options	3	21,775	3,350	17,599,587	5,866,529	3
BoD meeting of 02/01/2012	Share capital adjustment Exercise of share subscription options	3	2,051	350	17,600,637	5,866,879	3
BoD meeting of 02/28/2013	Share capital adjustment Exercise of share subscription options	3	24,905	4,250	17,613,387	5,871,129	3
BoD meeting of 02/07/2014	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 02/07/2014	Share capital adjustment Exercise of share subscription options	3	252,214.4	43,040	17,806,896	5,935,632	3
BoD meeting of 03/10/2015	Share capital adjustment Exercise of share subscription options	3	74,949.4	12,790	17,845,266	5,948,422	3
BoD meeting of 02/18/2016	Share capital adjustment Exercise of share subscription options	3	38,969	6,650	17,865,216	5,955,072	3
BoD meeting of 02/23/2017	Share capital adjustment Exercise of share subscription options	3	280,351	36,920	17,975,976	5,991,992	3
BoD meeting of 03/14/2018	Share capital adjustment Exercise of share subscription options	3	637,909	24,450	18,049,326	6,016,442	3

7.2.4. Corporate shareholding structure

Shareholding structure

As of January 31, 2018, the shareholding structure of ESI Group is as follows:



Change in the breakdown of the Company's share capital over the past three fiscal years

Over the past three fiscal years, the breakdown of share capital and voting rights evolved as follows:

At January 31, 2018 First and last name	Number of 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	30.3%	3,638,907	46.4%
Estate of Jacques Dubois	380,619	6.3%	759,038	9.6%
SUB-TOTAL OF SHAREHOLDERS' AGREEMENT (REGISTERED SHARES)	2,205,004	36.6%	4,397,945	56.0%
Vincent Chaillou	16,197	0.3%	28,893	0,4%
Charles-Helen des Isnards	3,751	0.1%	6,852	0.1%
Eric d'Hotelans	1,589	0.0%	3,178	0.0%
Véronique Jacq	61	0.0%	61	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)	21,600	0.4%	38,986	0.5%
TOTAL EMPLOYEE SHAREHOLDING (REGISTERED SHARES)	68,311	1.1%	84,874	1.1%
Public shareholding, registered shares	27,709	0.5%	42,310	0.5%
Public shareholding, bearer shares	3,286,830	54.6%	3,286,830	41.9%
SUB-TOTAL PUBLIC SHAREHOLDING	3,314,539	55.1%	3,329,140	42.4%
TREASURY SHARES	406,988	6.8%	0	0.0%
TOTAL	**6,016,442**	**100.0%**	**7,850,945**	**100.0%**
Total number of theoretical voting rights: 8,257,933				

At January 31, 2017 First and last name	Number of 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	30.4%	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%
Eric 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 of 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%	3,554425	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%
Eric 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				

Shareholdings above legal thresholds

Pursuant to the provisions of Article L. 233-13 of the French Commercial code, it is noted that at January 31, 2018, Mr. Alain de Rouvray, jointly with its family group, held 1,824,385 shares representing 30.32% of the share capital and 46.35% of voting rights.

Mr. Alex Pen Dubois-Sun held 355,419 shares representing 5.9% of share capital and 9% 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.

Declarations of ownership thresholds crossed in FY 2017

On July 4, 2017, Ms. Xiumei Sun Dubois, widow of Mr. Jacques Dubois and legal administrator of the minor Mr. Alex Peng Dubois-Sun, declared to have crossed downward the threshold of 10% of the Company's voting rights. This threshold was crossed as a result of selling of shares on the market. At January 31, 2018, Mr. Alex Pen Dubois-Sun held 355,419 shares representing 5.9% of share capital and 9% of voting rights.

The Company was not notified of any other crossing of legal thresholds of share capital or voting rights in 2017.

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, 2018, this agreement represented 30.3% 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 Shareholders' Meeting of June 29, 2017 authorized the Board of Directors, pursuant to the provisions of Article L. 225-209 of the French commercial code, of European regulation No. 596/2014 of April 16, 2014 on market abuse and of AMF's General Rule, to purchase or sell Company's shares in the context of the implementation of a buyback program. The maximum purchase price has been fixed to €80 per share. The number of shares acquired could not exceed 10% of the share capital. This authorization was granted for a duration of 18 months and supplanted the previous authorization of the Shareholders' Meeting of July 21, 2016.

The description of the share buyback program implemented by the Board of Directors' meeting of June 29, 2017, pursuant to the authorization granted by the Shareholders' Meeting can be consulted on the website.

Shares buyback in FY 2017

In 2017, ESI Group did not buy back any shares.

Cancellation of shares in FY 2017

In 2017, ESI Group did not cancel any shares.

Assignments or transfers of shares in FY 2017

In 2017, 11,018 ESI shares had been transferred as a payment in an external growth transaction.

Liquidity contract

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.

TABLE SUMMARIZING THE OPERATIONS OF THE COMPANY ON ITS OWN SHARES IN 2017

Date of authorization by the General Meeting	Resolution 9 of June 29, 2017
Date of expiration of the authorization	December 28, 2018
Ceiling on authorized buybacks	10% of share capital at the transaction date
Maximum purchase price per share	€80
Authorized purposes	Cancellation Share purchase options Free share grants Liquidity and market-making External growth
Board of Directors' meeting at which buybacks were implemented	June 29, 2017
Number of shares purchased in 2017	0
Number of shares cancelled in 2017	0
Number of shares sold/transferred in 2017	11,018
Use of repurchased shares in 2017	External growth
Number of treasury shares at January 31, 2018	406,988
Percentage of capital held by the Company at January 31, 2018	6.8%

7.2.6. 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.

7.3. Presentation of stock option and free share grant plans

7.3.1. Stock option plans

Grant of stock subscription options

At its May 5, 2017 meeting, the Board of Directors, pursuant to the authorization granted by the Shareholders' Meeting of July 24, 2017 and acting on the proposal of the Compensation, Nomination and Governance Committee, allocated 20,050 individual stock options, of which 18,175 in the Plan No. 17 *Ter* and 1,875 in the Plan No. 17 *Quater.*

Vesting of shares granted in the Plan No. 17 *Ter* is conditional on the continued and effective presence of the beneficiaries as Company's employees since the grant date. The stock options may be exercised in tranches as of May 5, 2019, May 5, 2020 or May 5, 2021 from case to case, during an eight-year period as of May 5, 2017, *i.e.* until May 4, 2025.

Vesting of shares granted in the Plan No. 17 *Quater* is conditional to both the presence of the beneficiary and to the achievement of the objectives set out in this plan. The stock options may be exercised as of May 5, 2021 during an eight-year period as of May 5, 2017, *i.e.* until May 4, 2025.

The maximum potential capital increase will be in a total par amount of €60,150, corresponding to 20,050 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 FY 2017 came to 24,450 shares with a par value of €3, representing a capital increase in an amount of €73,350, thereby bringing the capital from €17,975,976 to €18,049,326.

Allocation of stock purchase options

No stock purchase options were allocated during FY 2017.

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, 2018	As a % of share capital	Existing stock options[2] at January 31, 2018	Exercise price *(in €)*	As a % of share capital	Stock options exercised at January 31, 2018	As a % of share capital
No. 9 (GM of June 29, 2006)	0	0%	0	N.A.	0%	0	0%
No. 10 (GM of June 26, 2012)	0	0%	41,850 375 3,150 Total: 45,375	27.82 24.42 27.17	0.75%	27,450	0.46%
No. 15 (GM of July 23, 2013)	0	0%	0	N.A.	0%	0	0%
No. 17 (GM of July 24, 2014)	142,600	2.37%	7,350 20,050 Total: 27,400	27.17 50.92	0.46%	2,000	0.03%
No. 18 (GM of July 21, 2017)	297,753	4.95%	0	N.A.	0%	0	
TOTAL	**440,353**	**7.32%**	**72,775**	**-**	**1.20%**	**29,450**	**0.49%**

(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, 2018.
(2) The options forfeited or canceled following an employee's departure were removed from "Existing options" at January 31, 2018.

HISTORY OF ALLOCATIONS OF STOCK SUBSCRIPTION OR PURCHASE OPTIONS (TABLE 8 OF AMF RECOMMENDATIONS)

Meeting date	Plan 10: 06/26/2012	Plan 15: 07/23/2013	Plan 17: 07/24/2014
Date(s) of the meeting(s) of the Board of Directors	12/19/2012 02/07/2014 03/26/2015 07/22/2015	03/26/2015	07/02/2015 03/11/2016 05/05/2017
Number of options granted	180,000	20,000	37,400
O/w:			
• Vincent Chaillou	3,500	0	0
• Christopher St.John	2,975	0	0
Starting date of exercise period	2017 to 2019	2/01/2019	2017 to 2021
Expiration date	2020 to 2025	2/01/2025	2023 to 2026
Exercise price *(in €)*	27.82; 24.42; 21.66; 27.17	21.66	27.17; 50.92
Total number of options exercised	27,450	0	2,000
Total number of shares eligible to be subscribed or purchased, expired or canceled	107,175	20,000	8,000
Existing stock options at the balance sheet date	45,375	0	27,400

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	20,050	50.92	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	15,250	25.05	10 & 17

7.3.2. Free share grant plans

At its August 1, 2017 meeting, the Board of Directors, acting on the proposal of the Compensation, Nomination and Governance Committee, granted a maximum total number of 9,000 ordinary shares of the Company, with a par value of €3 each, to four beneficiaries, managers of the Company and its subsidiaries.

In accordance with the terms of Plan 8, the free shares will be granted to the beneficiaries at the end of a vesting period of which the length will be different depending on the granted shares tranches 1, 2 or 3 and 4, from 24 to 48 months. The definitive grant of free shares is conditional on their presence during the entire vesting period. The Board of Directors can choose to grant the existing shares or those to be issued. From the definitive grant, the beneficiaries should keep these shares, without selling them, during a retention period of which the length will also be different depending on the tranche, from 0 to 24 months. By way of exception, corporate officers commit to keep 20% of the granted shares until the end of their office, for any reason.

TABLE SUMMARIZING THE FREE SHARES PLANS AVAILABLE TO EMPLOYEES AND CORPORATE OFFICERS

Free share award plans	Free shares available to be awarded at January 31, 2018	As a % of share capital	Existing free shares at January 31, 2018	As a % of share capital
Authorization of the GM of July 21, 2016	23,725	0.44%	36,068	0.56%
TOTAL	**23,725**	**0.44%**	**36,068**	**0.56%**

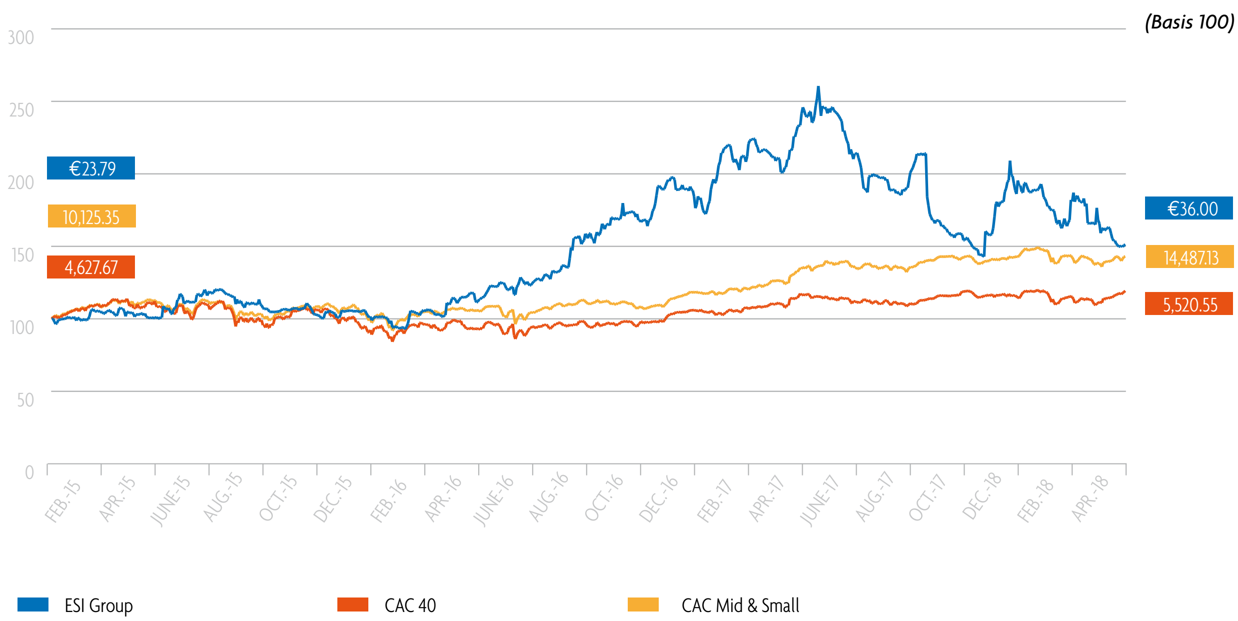
HISTORY OF ALLOCATIONS OF FREE SHARES (TABLE 10 OF AMF RECOMMENDATIONS)

Meeting date	Plan 6: 07/21/2016	Plan 7: 07/21/2016	Plan 8: 07/21/2016
Date(s) of the meeting(s) of the Board of Directors	07/21/2016	12/23/2016	08/01/2017
Number of granted shares	25,000	2,275	9,000
O/w:			
• Vincent Chaillou	5,000	0	0
• Christopher St.John	5,000	0	0
Date of delivery	From 07/21/2018	12/23/2018	From 08/01/2019
Date of availability	07/21/2020	12/23/2020	08/01/2021
Total number of shares delivered	0	0	0
Total number of expired or canceled shares	0	207	0
Existing shares at the balance sheet date	25,000	2,068	9,000

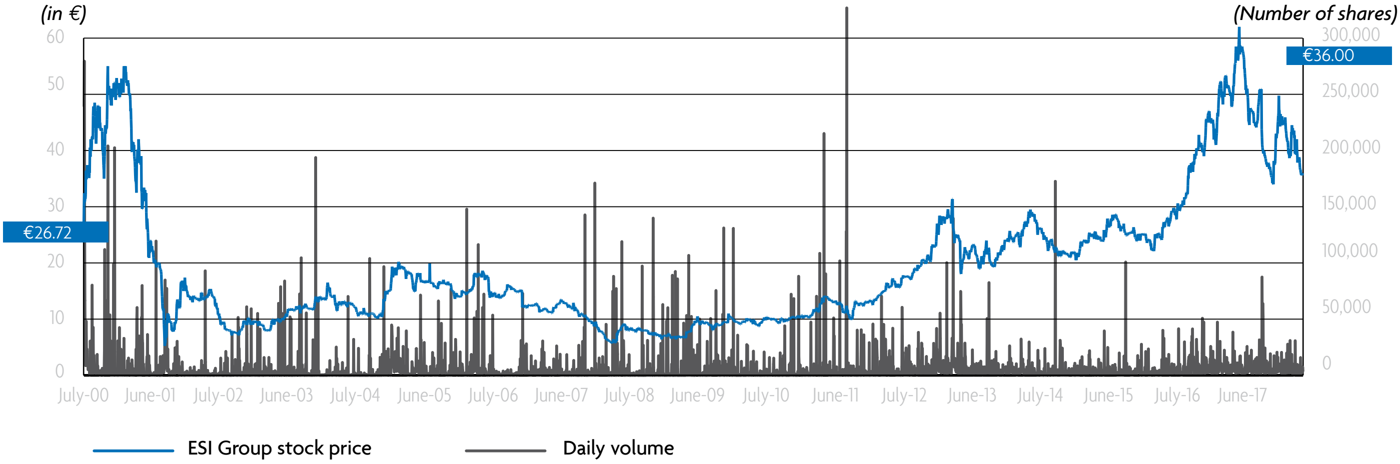
7.4. ESI shares – market

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 index since February 1, 2015 until the end of April 2018:



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 2018 and the daily volume of transactions:



7.4.2. Survey of identifiable bearer shares

On April 23, 2018, 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 24, 2017.

	At April 23, 2018		At April 24, 2017	
	As % of free float	As a % of share capital	As % of free float	As a % of share capital
French institutional investors	41%	22%	48%	26%
Foreign investors	52%	28%	42%	23%
Individual shareholders	7%	4%	8%	4%
Companies	0%	0%	0%	0%

This analysis points to a strong increase in foreign shareholders, which currently account for 28% of share capital, compared to 23% 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 24, 2018.

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

8.2. Statutory Auditors

Statutory Auditors

PricewaterhouseCoopers Audit

63, rue de Villiers

92200 Neuilly-sur-Seine

Represented by Mr. Thierry Charron.

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

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

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

Ernst & Young Audit

Faubourg de l'Arche

1/2, place des Saisons

92400 Courbevoie Paris-La Défense 1

Represented by Mr. Frédéric Martineau.

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

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

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

Alternate Auditors

Auditex

Faubourg de l'Arche

11, allée de l'Arche

92037 Paris-La Défense Cedex

Represented by Mr. Emmanuel Roger.

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

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

Mr. Yves Nicolas

63, rue de Villiers

92200 Neuilly-sur-Seine

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

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

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, shareholders 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
Justine Brosset
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

CROSS-REFERENCE TABLES

Registration Document cross-reference tables

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, 2017 which appear on pages 67-110 of the Registration Document filed with the French Financial Markets Authority (AMF) on May 19, 2017 under number D.17-0543;
- 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.

Information		Chapters
1.	**Responsible persons**	**8.1.**
1.1.	Persons responsible for the information contained in the document	8.1.
1.2.	Statement by the persons responsible for the document	8.1.
2.	**Statutory Auditors**	**8.2.**
2.1.	Name and address of the issuer's Statutory Auditors	8.2.
2.2.	Statutory Auditors who resigned, were removed or were not reappointed during the period in question	N.A.
3.	**Selected financial information**	**1.4.**
3.1.	Selected historical financial information	1.4.
3.2.	Selected historical financial information for interim periods	N.A.
4.	**Risk factors**	**1.6.**
5.	**Information concerning the issuer**	**7.**
5.1.	History and development of the Company	1.2.
	5.1.1. Corporate name and commercial name of the issuer	7.1.1.
	5.1.2. Place of registration and registration number of the issuer	7.1.1.
	5.1.3. Date of incorporation and term of the issuer	7.1.1.
	5.1.4. Headquarters and legal form of the issuer, law governing its operations, country of origin, address and telephone number of its registered headquarters	7.1.1.
	5.1.5. Significant events in the issuer's business development	1.2.
5.2.	**Investments**	1.5.
	5.2.1. Principal investments made by the issuer during each fiscal year	1.5.1.
	5.2.2. Principal investments by the issuer in progress	1.5.
	5.2.3. Principal investments that the issuer intends to make in the future and for which its management bodies have already undertaken firm commitments	1.5.3.
6.	**Business overview**	**1.1.**
6.1.	Main activities	1.1.1.
	6.1.1. Description of operations carried out by the issuer and its principal business activities	1.1.1.
	6.1.2. Significant new products or services launched on the market	1.1.2.
6.2.	Main markets	1.1.3.
6.3.	Exceptional factors having influenced information provided under items 6.1 and 6.2	N.A.
6.4.	Extent to which the issuer is dependent on patents or licenses, industrial, commercial or financial contracts or new manufacturing processes	N.A.
6.5.	Basis for any statements made by the issuer regarding its competitive position	1.1.3.
7.	**Flowchart**	**1.3.**
7.1.	Brief description of the Group and the issuer's position within the Group	1.
7.2.	List of major subsidiaries	1.3.2., 5.1.5. note 3.4. & 5.2.3. note F.8.
8.	**Property, plant and equipment**	
8.1.	Significant property, plant and equipment, existing or planned	5.1.5. note 6.2. & 4.6.
8.2.	Environmental considerations that may affect the use of these assets	1.6.2. & 3.4.3.
9.	**Review of financial position and performance**	
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.

Information		Chapters
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. & 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. & 5.1.5. notes 7.1. & 7.4.
10.5.	Information concerning anticipated sources of funds	4.1.2.4. & 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	2.2.
14.2.	Conflicts of interest within administrative, management and supervisory bodies	2.4.
15.	**Compensation and benefits**	**2.6.**
15.1.	Compensation paid to corporate officers	2.6. & 5.1.5. note 5.
15.2.	Total amounts set aside or accrued to provide pension, retirement or similar benefits	2.6.
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.**
24.	**Documents available to the public**	**8.3.**
25.	**Information on equity interests**	**5.2.3. notes C. & F.9.**

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	Chapters
• Person responsible for the document	8.1.
• Annual financial statements of ESI Group	5.2.
• Consolidated financial statements of the Group ESI	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
• Report of the Board of Directors on the corporate governance	See cross-reference table below

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	Chapters
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.
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.
• Declarations of ownership thresholds crossed	7.2.4.
• Shareholder agreements corresponding to securities comprising Company's share capital	7.2.4.
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 the results of the past five fiscal years	4.4.
Internal control and risk management procedures	**4.3.**
• Control environment	4.3.1.
• Organization of internal control	4.3.2.
• Risk management	4.3.3.

Corporate governance report cross-reference table

For ease of reference, the following cross-reference table facilitates identification of information required in the corporate governance report pursuant to Articles L. 225-37, L. 225-37-2 to L. 225-37-5 of the French Commercial Code.

Information	Chapters
• Executive management choice	2.2.2.
• Limits on the powers of the Chief Executive Officer and Chief Operating Officers	2.2.4.
• Composition of the Board of Directors, conditions for preparing and organizing the work of the Board of Directors	2.3. & 2.4.
• List of all positions held in all companies by each corporate officers during the fiscal year	2.3.
• Compensation and benefits paid during the fiscal year to each corporate officer	2.6.
• Report on the principles and criteria for attributing and distributing compensation payable to executive corporate officers in respect of their term	2.6.1.
• Agreements signed between a Director or a major shareholder and a subsidiary	2.7.
• Grant and conservation of stock options to corporate officers	2.6. & 7.3.
• Grant and conservation of free shares to corporate officers	2.6. & 7.3.
• Table summarizing currently valid delegations granted by the Shareholders' Meeting	7.2.2.
• Factors that may have an impact in the event of a public offering	7.2.6.

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.
• 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

Shareholders relations

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get it right®

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