get it right®

2018 REGISTRATION DOCUMENT

including the annual financial report

PIONEER AND LEADER IN VIRTUAL PROTOTYPING

ESI Group

French limited company with a share capital of €18,053,676
Registered office: 100/102, avenue de Suffren, 75015 Paris
Paris Trade and Company Register (RCS) number: 381 080 225

REGISTRATION DOCUMENT
ANNUAL FINANCIAL REPORT

Financial year 2018 (ended January 31, 2019)

AMF | AUTORITÉ DES MARCHÉS FINANCIERS

This Registration Document was filed with the French Financial Markets Authority (AMF) on May 23, 2019 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

The Product Performance Lifecycle™ Company

0 real test

0 real prototype

0 unexpected down-time

2018 KEY FIGURES

REVENUES

€139.4 M

PER ACTIVITY

79% Licenses

21% Services

PER GEOGRAPHICAL AREA

49% Middle East and Africa

36% Asia-Pacific

15% Americas

EBITDA

€11.2M

CURRENT OPERATING PROFIT*

€6.8M

ATTRIBUTABLE NET PROFIT

€3.3M

* *Reclassification of the amortization of intangibles assets acquired in business combinations to Current Operating Result.*

A GLOBAL COMPANY

EMEA
5 distribution subsidiaries
20 distributors and agents

ASIA
7 distribution subsidiaries
6 distributors and agents

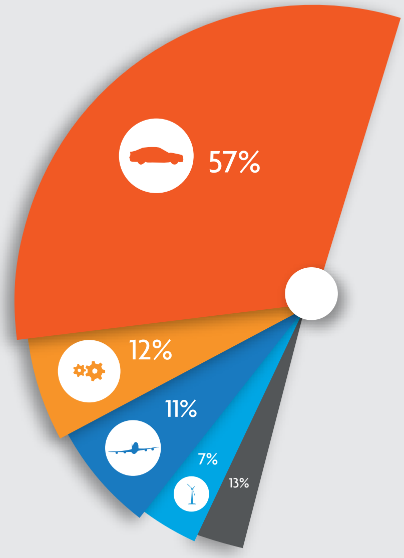
AMERICAS
2 distribution subsidiaries
4 distributors and agents

Covering more than
+40
COUNTRIES

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

AN INNOVATIVE AND MULTISECTORIAL OFFER

INDUSTRIAL DIVERSIFICATION *(% of booking orders)*



GROUND TRANSPORTATION/AUTOMOTIVE
HEAVY INDUSTRY
AERONAUTICS & AEROSPACE
ENERGY
OTHERS

INNOVATION IN THE THICK OF THE ESI GROUP STRATEGY

33.5%
R&D Investments/
Licenses revenues

36%
Group's headcount
dedicated to R&D

93
Scientific
publications

19
R&D
centers

INCREASE IN R&D INVESTMENTS
↗ €36.8 M

A **RESPONSIBLE** COMPANY

EMPLOYEES

Being a committed employer

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

CUSTOMERS

Being an outstanding partner for our customers

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

esi get it right®

CIVIL SOCIETY

Serve civil society

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

ENVIRO-NMENT

Being an environ-mentally friendly player

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

Gaïa INDEX

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

GAÏA INDEX
which distinguishes the 70 best companies
with social, environmental
and governance practices.

SUSTAINABLE DEVELOPMENT GOALS

WE SUPPORT UN GLOBAL COMPACT

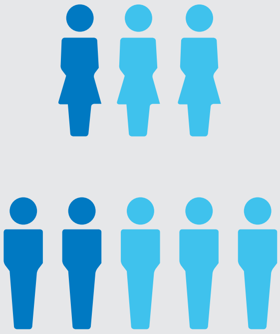
A **WELL-BALANCED** CORPORATE GOVERNANCE

A Board of Directors made up of:

8 MEMBERS

including: **3 WOMEN**

and **5 INDEPENDENT MEMBERS**



Independent
Non-Independent

5 SPECIALIZED COMMITTEES

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

STOCK MARKET INFORMATION *(as of end of April 2019)*

€33.50

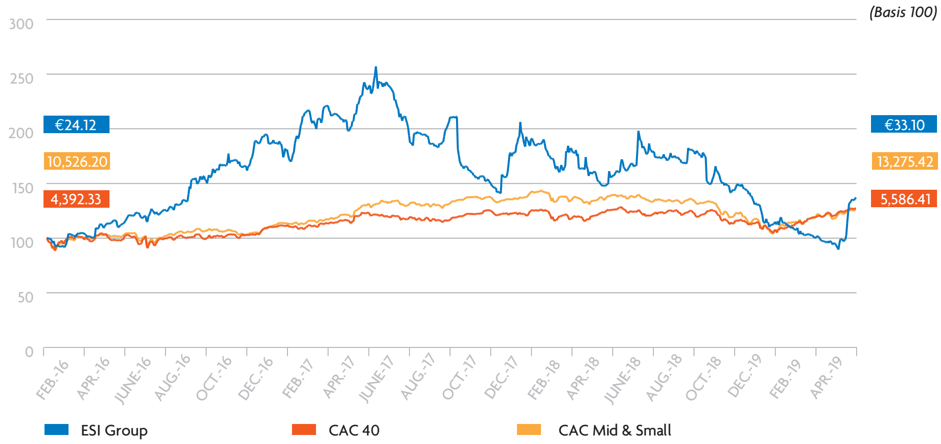
STOCK PRICE

€197.11 M

MARKET CAPITALIZATION

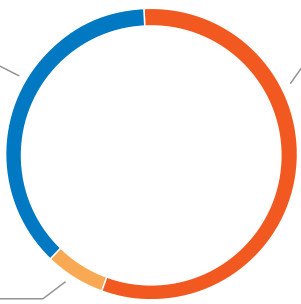
SHARE PRICE EVOLUTION

between February 2016 and April 2019 (basis 100)



SHARE CAPITAL BREAKDOWN

as of end of April 2019



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 tests and prototypes by virtual replicas. 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 creation to its market withdrawal. The creation of Hybrid Twin™, leveraging simulation, physics and data analysis, enables manufacturers and operators to deliver and pre-certify 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 enable the gradual elimination of tests and physical components and subassembly prototypes during the product conception and manufacturing phases. The virtual prototype of the industrial product thus designed accelerates its certification and allows the monitoring and control of its operational performance, helping industry players to achieve their performance and productivity objectives.

Innovative visualization technologies such as ESI 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.

Most importantly, the use of technologies such as big data, System Modeling, Machine Learning, and the Internet of Things (IoT) adds to ESI Group’s solutions 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, from product commissioning to its operational withdrawal including modeling of potential evolutions during its useful life: accounting for flaws, wear and tear, maintenance procedures, and running in of assisted operation. The Hybrid Twin™ concept is the representation of this enhanced offer. It is about being able to follow the evolution of your product from the conception to the end-of-life in a digital interface that facilitates informed decision making for both maintenance and improvement of future versions of the product.

The virtual prototype can now become agile and intelligent to support industrial manufacturers in the age of smart factories and smart digital products.

The Group has two main activities: the edition and distribution of software, and the delivery of 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 79% of revenue in 2018. 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.

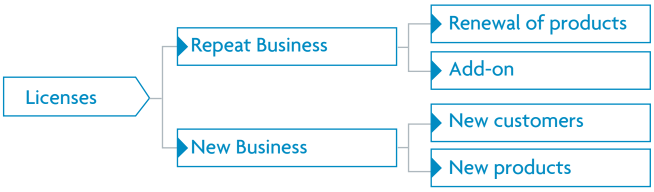
The significant added value provided by ESI Group’s solutions requires major research and development work by highly qualified research engineers.

Products are distributed worldwide. In 2018, distribution subsidiaries directly managed 92.6% 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.

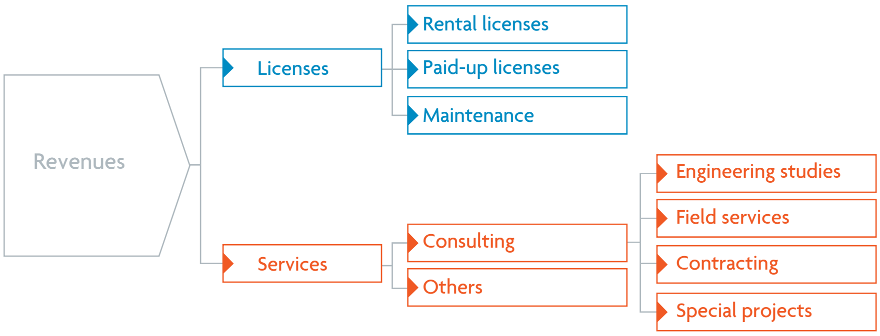


1.1.1.2. Consulting services (Services activity)

In addition to its main business activity of software publishing and distribution, the Group also provides consulting services directly related to Virtual Prototyping. The Services activity, which accounted for 21% of 2018 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 Licenses activity (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.

ESI Group's solutions address three major industrial issues:

- accelerate industrial innovation with Virtual Prototyping;
- fill gaps and manage 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 manage 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. This Hybrid Twin™ provide 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 $48.1 billion) in April 2019, which included Virtual Prototyping under the category of "Simulation & Analysis Suppliers" (activity estimated at $6.5 billion in 2018). Most of the companies listed in this category are active in the field of analysis, however, within this panel, few companies reach the physical realism of the Virtual Prototyping solutions offered by ESI Group.

High barriers to entry

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

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

ESI Group's technologies draw on:

- longstanding partnerships with major industry players that both use (manufacturing industries) and supply (software platforms) technical computing systems;
- highly-skilled teams of researchers, 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, aeronautic, 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. In January 2019, Hexagon announced the acquisition of Etalon in order to strengthen its solutions and offers to address the issues of the Industry 4.0 of their customers.

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 day to day 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.

Revenues	2018		2017		2016	
	(in € thousands)	*(in % of the total)*	*(in € thousands)*	*(in % of the total)*	*(in € thousands)*	*(in % of the total)*
Europe, Middle East and Africa	68,837	49%	63,821	47%	63,419	45%
Asia-Pacific	49,768	36%	49,941	37%	54,894	39%
Americas	20,802	15%	21,511	16%	22,268	16%
TOTAL	139,407	100%	**135,274**	**100%**	**140,551**	**100%**

As in previous years, the Group maintained a strong international presence, with 84% 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, FAW Group Corporation, Fiat Chrysler Automobiles, 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, Joyson Safety Systems, Mahindra, 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, Farasis, 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.

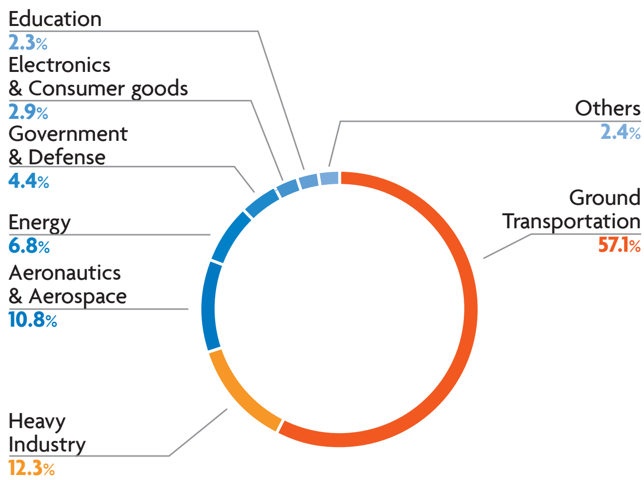
Main customers: Aixtron, Applied Materials, Google, Samsung.

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 2018, 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 2018, some 475 people worked within our distribution network to cover software sales, services production, and support customers. The Group's proprietary distribution network accounted for 92.5% 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 or Safran 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 2018

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).

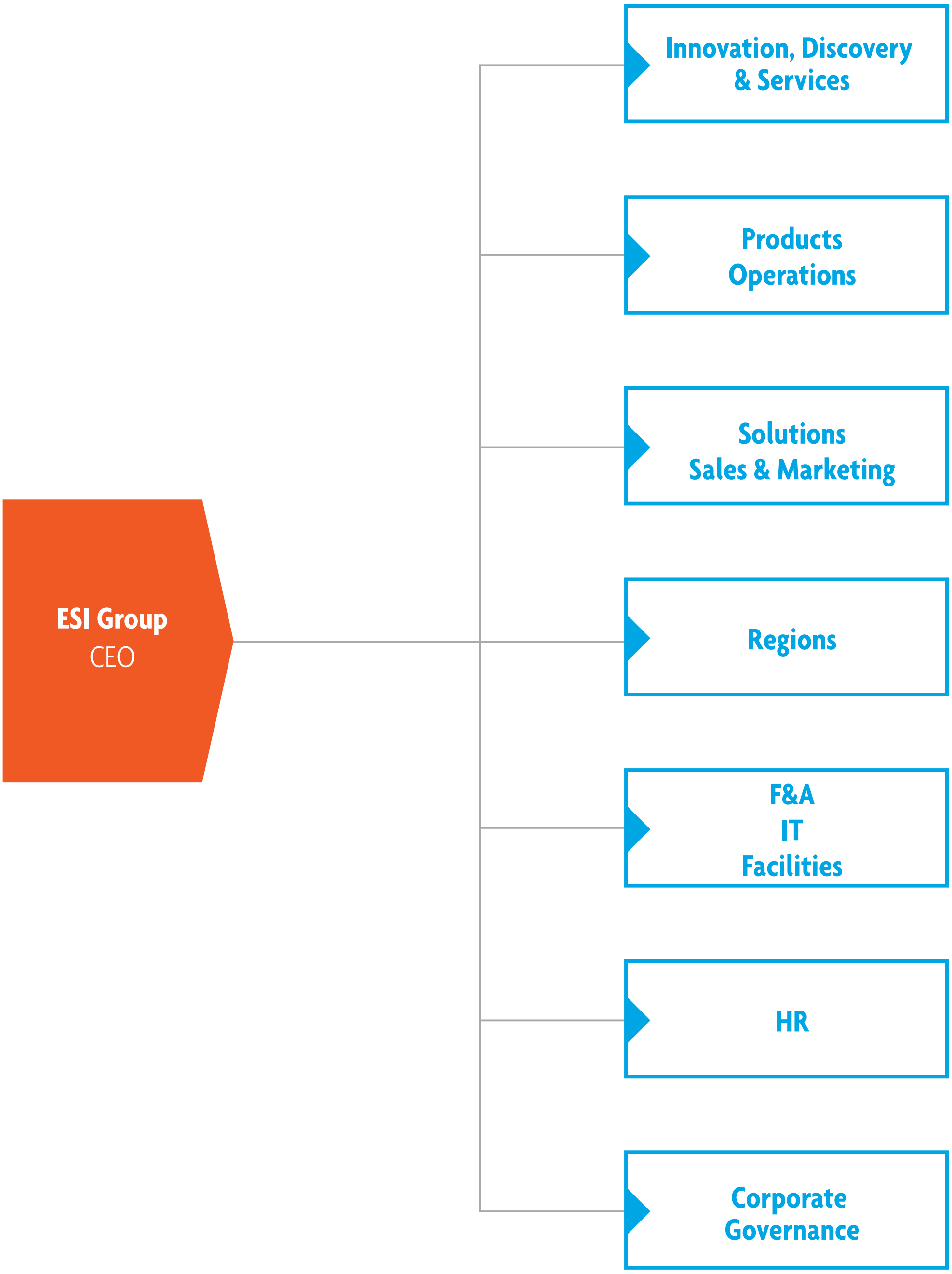
2019

The Group has been through a major change in its governance on February 1, 2019 with the nomination of Cristel de Rouvray as Chief Executive Officer of the Group. Alain de Rouvray, founder, remains Chairman of the Board of Directors.

1.3. Group structure

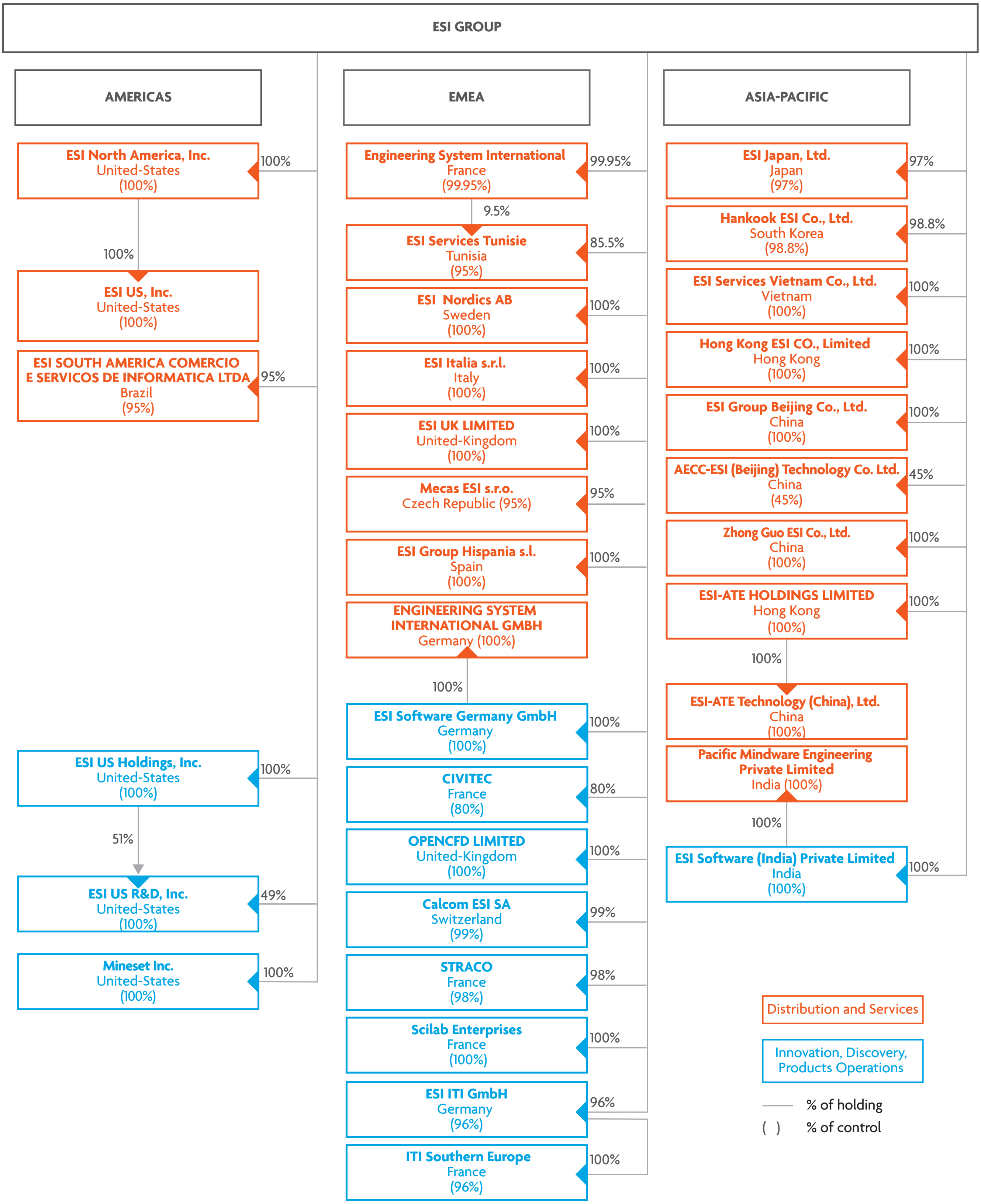
1.3.1. Operational flowchart

At April 30, 2019, the Group's operational flowchart was as follows:



1.3.2. Legal flowchart

At April 30, 2019, the Group's legal flowchart was as follows:



Note: the percentages of equity and voting rights are identical.
For more information, see note F.8 "Table of controlled entities and affiliates" (at January 31, 2019) in the notes to the consolidated financial statements.

1.4. Selected financial information

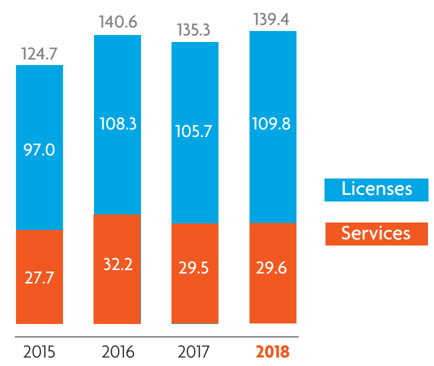
This information are extracted from the consolidated financial statements.

1.4.1. Revenue

ESI Group has returned to the path of growth in 2018, as part of its ongoing commercial and operational transformation. The Company closed out the year with revenues of €139.4 million (+3.1%), following Q4 sales of €58.2 (+2.8%). Annual growth was +3.9% adjusted for Forex fluctuations (-€1.2 million) associated with the falling value of three currencies (the US Dollar, Japanese Yen, and Indian Rupee). The product mix is evolving positively towards Licenses, which represent 79% of total revenue compared to 78% last year. This increase is confirming the trust of industrial global leaders. Notably, the twenty largest global customers account for 45% of total order intake. This roster includes some of our strategic partners and the world's industrial leaders, which are well along in the digital transformation of their business models.

CHANGE IN REVENUE

(in €m)



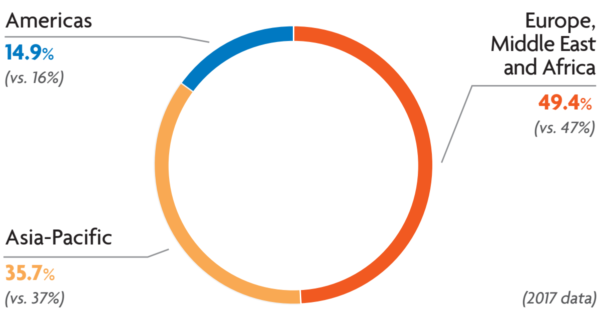
1.4.2. Strategic business alignment

The Licensing activity is the mainstay of ESI's business model, representing 79% of annual sales at €109.8 million (+3.9%). Primarily comprised of yearly licenses, which are for a large part billed at the end of the year, this business brought in €70.4 million for H2 (+5.6%).

The Services (Consulting) activity combines various services, from industrial and advanced application studies, to R&D projects and training. The significant upturn in business during the second half (+6.3%) at €15.7 million was driven by the global momentum of some major European companies, particularly in the French automotive, aeronautics and energy industries. Overall, sales for the Services division remained steady at €29.6 million (+0.1%), for a 21% share of total annual revenues.

1.4.3. Breakdown of revenue by geographic area

GEOGRAPHICAL BREAKDOWN



Business in BRIC countries accounted for 13.2% of revenue compared to 13.1% in 2017.

1.4.4. Profitability

EBITDA reached €11.2 million compared to €12.1 million, giving an EBITDA margin of 8.0% for the year, compared with 9.0% in 2017. This drop is a result of the transformation plan which weighed on growth, and increased investments in R&D.

Current operating profit was €6.8 million, representing a current operating margin of 4.9%, or €1.3 million less than last year.

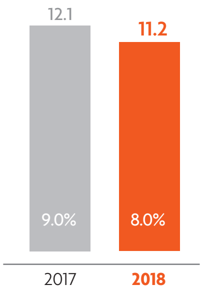
EBIT dropped €8.1 million to €7.0 million, giving an EBIT margin of 5.0%, compared to 6.0% in 2017.

The Financial Result was a net financial expense of €1.3 million, compared to a financial expense of €2.7 million in 2017, this increase of financial result is due to favorable forex impact, mostly on revalued transactions, in US dollar, Japanese yen and South Korean won.

Attributable Net Profit came out at €3.3 million in 2018, giving a net margin of 2.4%.

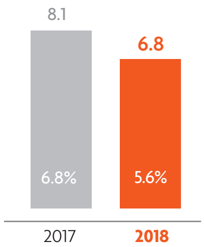
EBITDA

(in €m and % of revenue)



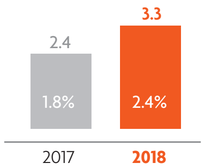
CURRENT OPERATING PROFIT*

(in €m and % of revenue)



ATTRIBUTABLE NET PROFIT

(in €m and % of revenue)



1.5. Major investments during the past three financial 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 €2.3 million in 2016, and €3.6 million in 2017 and €4.2 million in 2018. 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 €44.1 million at January 31, 2019 and corresponds to approximately 14.4 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 are 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, 2018 and January 31, 2019 is presented in the table below. See notes 3.2.1 and 6.1.1 to the consolidated financial statements for further information.

(in € millions)	January 31, 2018	Change in scope of consolidation	Foreign exchange gain/(loss)	January 31, 2019
Goodwill	41.0		0.4	41.4
Intangible assets with an indefinite useful life	12.0			12.0
TOTAL	**53.0**		**0.4**	53.4

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.

* *Reclassification of the amortization of intangibles assets acquired in business combinations to Current Operating Result.*

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 order to evaluate any investment opportunities that could potentially improve its solutions, the Group has established a Solution Strategy 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 protectionist policies that impede rollout of the Company's solutions.

The Group's presence in many countries protects it from the adverse effects of unfavorable local economic conditions.

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, the most advanced in its digital transformation, accounts for 57% of orders and uses a variety of technologies, thereby limiting any risk of dependence.

The Group's twenty largest customers have accounted for approximately 45% of orders.

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 21% of the Group's total revenue in 2018. 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, "Statement on Extra-Financial Performance."

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:
  - advising on major corporate and securities law matters at Group level, including the definition of legal standards and internal procedures for a good corporate governance practice,
  - ensuring the general secretariat of the Company's governance bodies,
  - advising and implementing restructuring and M&A operations at Group level and minimize the related risks,
  - ensuring consistency in the approach to legal matters by assuming the legal coordination of the subsidiaries' operations;
- the intellectual property (IP) branch deals with:
  - any IP law subject and anything directly related to business and contractual relations with research partners,

- protection and defence of intellectual property,
- IP aspects during M&A operations.

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 Publisher password is found, ESI Group also uses, for several products, a counterfeit detection tool together with a legal assistance service to prosecute counterfeiters.

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 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 market losses, production 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 an experience of "good practice" of 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 wide knowledge and customer proximity 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 3.4.4). 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, partnership with China Soft International) 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.

Strategic investments

Research and development investments are the Group's technological pillar. These investments are maintained at a high level since several years (approximately 33.5% 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 "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 REPORT ON CORPORATE GOVERNANCE

This section constitutes the report of the Board of Directors on corporate governance pursuant to Article L. 225-37 of the French Commercial Code. This report notably sets out the conditions of preparation and organization of the work of the Board of Directors and its Committees, the powers of the Corporate Officers, the principles and rules adopted to define their remuneration and benefits of any kind granted to them, as well as other information to be included under Articles L. 225-37 *et seq.* of the French Commercial Code.

This report has been prepared on the basis of work carried out by various departments of the Company, in particular, the Legal Department and Finance and Administration Department.

This report was approved by the Board of Directors on April 12, 2019, after review by the Board Committees of the parties within their respective powers and sent to the Statutory Auditors. It will be presented to the Combined General Meeting of July 18, 2019.

2.1. Governance Code

The Company is a limited company *(société anonyme)* with a Board of Directors. The Directors, the Chairman of the Board, the Chief Executive Officer ("**CEO**") and the Chief Operating are referred to collectively in this Registration Document by the term "**Corporate Officers**".

On the date of publication of this Registration Document and to the Company's knowledge, there are:

- no family ties among the Company's Corporate Officers, with the exception of parentage between Alain de Rouvray, Chairman of the Board of Directors and Cristel de Rouvray, Director and CEO from February 1, 2019;
- no conflicts of interest between the private interests of each Corporate Officers and their duties with regard to the Company;
- no arrangement or agreement concluded with the principal shareholders or with clients, suppliers or others, as a result of which any of the Corporate Officers would have been appointed in such position;
- no restriction on the sale by Corporate Officers of their shareholdings in the Company's capital except the shareholders' agreement as described under Section 7.2.4 of this Registration Document;
- no service agreement binding the Corporate Officers to the Company or any of its subsidiaries that provides benefits to be granted to them, apart from the regulated agreements as set out under Section 2.6 of this Registration Document.

In addition, to the Company's knowledge on the date of this Registration Document, no Corporate Officers has been in the last five years:

- convicted of fraudulent offences;
- associated with any bankruptcies, receiverships or liquidations;
- subject to any official public incrimination and/or sanctions by statutory or regulatory authorities;
- disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Since April 2010, the Company has voluntarily referred to the Middlenext Code, which is available on the website www.middlenext.com as revised in September 2016. The Board of Directors declares that it has taken cognizance of it and undertakes to examine annually in particular the points of vigilance of the Code.

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	2.3.3.2
R.2.	Conflict of interest	Recommendation followed by the Company	2.3.3.2
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	2.3.3.4
R.5.	Organization of Board and Committee meetings	Recommendation followed by the Company	2.3.3.4 and 2.3.4
R.6.	Establishment of Committees	Recommendation followed by the Company	2.3.4
R.7.	Establishment of Board internal rules	Recommendation followed by the Company	2.3.3.1
R.8.	Choice of each Director	Recommendation followed by the Company	2.3.2
R.9.	Terms of office of members of the Board	Recommendation followed by the Company	2.3.1
R.10.	Director compensation	Recommendation followed by the Company	2.4.1.2
R.11.	Assessment of the work done by the Board	Recommendation followed by the Company	2.3.6
R.12.	"Shareholder" relations	Recommendation followed by the Company	2.3.5
R.13.	Definition and transparency of compensation paid to corporate executive officers	Recommendation followed by the Company	2.4
R.14.	Preparation of "executive" succession	Recommendation followed by the Company	2.2.2, 2.3.3.5 and 2.3.3.6
R.15.	Combined employment contract and directorship	Recommendation followed by the Company	2.4.2.2
R.16.	Severance pay	Recommendation followed by the Company	2.4.2.2
R.17.	Supplementary pension plans	Recommendation followed by the Company	2.4.2.2
R.18.	Stock options and grant of free shares	Recommendation followed by the Company	2.4.2.1.4 and 2.4.2.2
R.19.	Review of areas of attention	Recommendation followed by the Company	2.1

2.2. Functioning of the General Management

In accordance with the legal and statutory provisions, the Board of Directors entrusts the General Management either to the Chairman of the Board of Directors or to another individual, whether Director or not, bearing the title of Chief Executive Officer ("**CEO**").

The choice between these two methods of exercise of the General Management is made by the Board of Directors by decision of the majority of the Directors present or represented. The choice of the Board is brought to the attention of Shareholders and third parties in accordance with the regulations in force.

No one can be appointed CEO if he is over 80 years old. If the current CEO exceeds this age, he is deemed to have resigned from office.

The CEO is vested with the broadest powers to act in all circumstances in the name of the Company. The powers of the CEO are however limited by the Board of Directors (see Section 2.2.4.1 below).

2.2.1. Combined offices of Chairman of the Board of Directors and Chief Executive Officer during the financial year ended January 31, 2019

Since the creation of the Company and until January 31, 2019, the Board of Directors had opted for a monistic governance. At its meeting on July 22, 2015, the Board of Directors decided to maintain the combined office of Chairman and Chief Executive Officer and to renew Alain de Rouvray, founder of the Company and Chairman of the Board of Directors as Director General of the Company for a term of four years expiring in 2019.

2.2.2. Dissociation of the functions of Chairman of the Board of Directors and Chief Executive Officer as from February 1, 2019

At its meeting of September 18, 2018, the Board of Directors decided to modify the monist corporate governance structure of the Company and to adopt a separate structure, in order to fully integrate into the Company's transformation context. Thus, as of February 1, 2019, the Board of Directors decided to separate the functions of Chairman of the Board of Directors and CEO, while maintaining Alain de Rouvray as Chairman of the Board of Directors and secondly to appoint Cristel de Rouvray as Chief Executive Officer for the remaining term of their respective directorships.

In accordance with Article L. 225-54-1 of the French Commercial Code, Cristel de Rouvray does not hold any other position as Chief Executive Officer in a public limited company with its registered office in France.

2.2.3. Chief Operating Officers

At the CEO's proposal, the Board of Directors may appoint one or more individuals as Chief Operating Officer to assist the CEO. 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 CEO's agreement and sets their compensation. With respect to third parties, the Chief Operating Officer has the same powers as the CEO.

If the CEO 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 CEO unless the Board of Directors decides otherwise.

Chief Operating Officers may be dismissed at any time upon proposal of the CEO. If Chief Operating Officers are dismissed without just cause, such dismissal may be grounds for compensation.

At its December 19, 2018 meeting, the Board of Directors decided to reappoint Vincent Chaillou and Christopher St John as Chief Operating Officers for a term of four years, expiring in 2021.

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

2.2.4.1. Limits to the CEO's powers

The CEO represents the Company in its dealings with third parties. He is vested with the broadest powers to act in all circumstances in the name of the Company, provided that the act he carries out is part of the corporate object and is not expressly reserved to Shareholders' Meetings or to the Board of Directors.

Without prejudice to the legal provisions relating to authorizations to be granted by the Board of Directors (regulated agreements, sureties, endorsements and guarantees, transfers of participations or real estate, etc.), the Chief Executive Officer must obtain the prior authorization of the Board of Directors for the following operations that are outside the scope of day-to-day management, in accordance with its internal rules:

- purchase or acquire, sell or dispose of, or mortgage any real estate, pledge any movable property and claim, where the transaction exceeds the amount of €100,000;

- operations intended to consent to or contract any loans or loans, credits or advances, where these exceed an amount of €2,000,000;
- direct or equity transactions that may affect the Group's strategy and substantially modify its financial structure or scope of business;
- settle any dispute and take legal action, with the exception of debt recovery actions or any day to day operations and urgent actions such as provisional or conservatory measures;
- the issue of security interests, guarantees, endorsements or guarantees where these exceed an annual amount of €100,000;
- the issue of securities, whatever their nature, which may lead to a change in the share capital, regardless of the amount.

2.2.4.2. Limits to the Chief Operating Officers' powers

The powers of the Chief Operating Officers to act as legal representatives of the Company have been delegated by the Board of Directors. The following powers have thus been delegated to the Chief Operating Officers:

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 solely 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 the Chief Operating Officers 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 CEO is assisted by the GEC for the Company's daily management pertaining to growth strategy in the following areas:

- Research;
- Innovation;
- Service activity;
- Production of products and solutions;
- Sales and marketing;
- Regional directions;
- Human resources;
- Quality;
- IT;
- Finance et administration;
- Communication.

The GEC meets at least once a month and as often as the interest of the Company requires, to report on the activities of the Company to the CEO. The GEC prepares, with the support of the specialize committees, all matters submitted to the prior authorization of the Board of Directors for the execution and/or implementation of strategic operations.

Beginning 2018, ESI Group reviewed its management and operational organization, in line with the adaptation of its new Hybrid Twin™ solutions to address the challenges of the Industry 4.0 and Smart Factory and the Outcome Economy.

In this context and to support this fundamental reorganization, Christian Matzen, GEC member, was appointed Executive Vice President Sales and Marketing (EVP S&M), and Dominique Lefebvre was appointed Director of Product Operations and joined the GEC. On June 4, 2018, Olfa Zorgati was appointed Chief Financial Officer. Following Angelita Reyes's departure on March 31, 2019, Cristel de Rouvray also supervises the Group Human Resources in the interim.

As at the date of this Registration Document, the GEC comprises the following members:

From the left to the right:

Christian MATZEN
Executive Vice President, Sales and Marketing

Christopher ST JOHN
Chief Operating Officer – Asia-Pacific Regional Director

Corinne ROMEFORT-RÉGNIER
Corporate Governance Director

Mike SALARI
Executive Vice President Innovation, Value Discovery and Services – Regional Director, The Americas

Cristel DE ROUVRAY
Chief Executive Officer of the Company

Vincent CHAILLOU
Board member and Chief Operating Officer – Group Strategy and EMEA Regional Director

Olfa ZORGATI
Chief Financial Officer

Dominique LEFEBVRE
Executive Vice President Products Operations

2.3. Board of Directors

2.3.1. Composition 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.

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). 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 will automatically be deemed to have resigned. He will nonetheless retain his seat until the first Board meeting following the date at which the Director in question exceeded the age limit.

OVERVIEW OF THE BOARD OF DIRECTORS AS AT THE DATE OF THIS REGISTRATION DOCUMENT

Members of the Board of Directors	Age	Gender	Nationality	Strategic Committee	Audit Committee	Compensation Committee(1)	Nominations and Governance Committee(1)	Technology and Marketing Committee	Start of first term	Start of current term	End of current term	Expertise, experience
MEMBERS CONSIDERED NON INDEPENDENT BY THE BOARD OF DIRECTORS (SEE SECTION 2.3.1.2)												
Alain de Rouvray	75	M	French	●*			●*(2)	●	1991	2015	AG 2019(3)	Industries, Technologies, Commerce, Leadership, M&A
Vincent Chaillou	69	M	French	●				●	2004	2016	AG 2020	Industries, Technologies, Commerce, Leadership, M&A
Cristel de Rouvray	42	F	French-American	●		●*(4)	●*(4)	●	1999	2017	AG 2021	Leadership, RSE
MEMBERS CONSIDERED INDEPENDENT BY THE BOARD OF DIRECTORS (SEE SECTION 2.3.1.2)												
Charles-Helen des Isnards	74	M	French	●	●*	●	●		2008	2017	AG 2021	Finance, M&A, Listed company
Éric d'Hotelans	68	M	French	●	●	●*(2)	●		2008	2015	AG 2019(3)	Technologies, Finance, Leadership, Listed company
Véronique Jacq	51	F	French	●	●			●	2014	2018	AG 2022	Finance, M&A, Listed company
Rajani Ramanathan	52	F	American, Indian	●		●	●	●*	2014	2018	AG 2022	Technologies, Commerce, Leadership, CSR
Yves de Balmann	73	M	French-American	●					2016	2016	AG 2020	Finance, Leadership, M&A, Listed company

** Chairman.*
● Member.
(1) The Compensation Committee and the Nomination and Governance Committee were dissociated by decision of the Board of Directors on December 19, 2018 with effect from February 1, 2019.
(2) Member and Chairman of the Committee from February 1, 2019.
(3) Mandates proposed to be renewed at the Shareholders' Meeting of July 18, 2019.
(4) Member and Chairwoman of the Committee until January 31, 2019.

2.3.1.1. Changes in the composition

CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS IN 2018 AND UNTIL THE DATE OF THIS REGISTRATION DOCUMENT

Date of effect	Departure	Appointment	Renewal	Diversification
July 18, 2018	-	-	Véronique Jacq	Finance, gender
July 18, 2018	-	-	Rajani Ramanathan	International experience, technologies, gender

CHANGES IN THE COMPOSITION OF THE COMMITTEES IN 2018 AND UNTIL THE DATE OF THIS REGISTRATION DOCUMENT

	Date of effect	Departure	Appointment	Renewal
Strategic Committee	July 18, 2018	-	-	Rajani Ramanathan
Audit Committee	July 18, 2018	-	-	Véronique Jacq
Compensation Committee(1)	January 31, 2018	Alain de Rouvray	-	-
	January 31, 2019	Cristel de Rouvray	-	-
	February 1, 2019	-	Éric d'Hotelans(2)	-
Nomination and Governance Committee(1)	January 31, 2018	Alain de Rouvray	-	-
	January 31, 2019	Cristel de Rouvray	-	-
	February 1, 2019	-	Alain de Rouvray(2)	-
Technology and Marketing Committee	July 18, 2018	-	-	Rajani Ramanathan Véronique Jacq

(1) The Compensation Committee and the Nomination and Governance Committee were dissociated by decision of the Board of Directors on December 19, 2018 with effect from February 1, 2019.
(2) Chairman in replacement of Cristel de Rouvray.

2.3.1.2. Independence

In accordance with the recommendations of the Middlenext Code (R.3), following the opinion of the Nomination and Governance Committee, the Board of Directors analyzed and determined at a meeting of April 4, 2019, the proportion of independent directors within the Board. In particular, it examined each of the directors' situations in light of the five criteria presuming independence defined by the Code, namely:

Criterion 1	Not to be and not to have been during the course of the previous five years, an employee or corporate officer of the Company or an entity of the Group
Criterion 2	Not to have been during the course of the previous two years and not to be in a significant business relationship with the Company or its Group (customer, supplier, competitor, service provider, creditor, banker)
Criterion 3	Not to be majority shareholder or not holding a significant percentage of the Company's voting right
Criterion 4	Not being related by close family ties to a corporate officer or a majority shareholder
Criterion 5	Not having been an Auditor of the Company during the course of the previous six years

The table below shows each director's situation in light of the independence criteria as stated above, and the classification chosen by the Board of Directors. The Board identified five independent director out of eight, representing 62.5% of independence, largely above the one-third of independence recommended by the Middlenext Code for a controlled company.

Director	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Criterion 5	Classification chosen by the Board of Directors
Alain de Rouvray	X	✓	X	X	✓	Not independent
Vincent Chaillou	X	✓	✓	X	✓	Not independent
Cristel de Rouvray	X	X	X	X	✓	Not independent
Charles-Helen des Isnards	✓	✓	✓	✓	✓	Independent
Éric d'Hotelans	✓	✓	✓	✓	✓	Independent
Véronique Jacq	✓	✓	✓	✓	✓	Independent
Rajani Ramanathan	✓	✓	✓	✓	✓	Independent
Yves de Balmann	✓	✓	✓	✓	✓	Independent

X: Not compliant.
✓: Compliant.

2.3.1.3. Balanced gender representation on the Board

At the date of this Registration Document, the Board of Directors is composed of three women and five men. In accordance with Article L. 225-18-1 of the French Commercial Code, the difference between the two genders is not greater than two and consequently the Board of Directors has a balanced representation.

2.3.2. Offices of directors

The number of directorships held by directors is in accordance with the limits set forth in Article L. 225-21 of the French Commercial Code. This is an important guarantee of their commitment and availability to the Group.

Alain de Rouvray

Chairman and Chairman of the Board of Directors

Date 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 and until January 31, 2019. Since February 1, 2019, as from the date of dissociation of governance functions, he is acting as Chairman of the Board of Directors. 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 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 outside the Group:

None

Expired offices held over the past five years:

None

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

Vincent Chaillou

Board member and Chief Operating Officer

Date of birth: 03/24/1950

French

Vincent Chaillou is the Company COO is Chief Operating Officer–Group Strategy and EMEA Regional Director. Vincent 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 outside the Group:

- Member of the Board of the association *Alliance Industrie du Futur*
- 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

Expired offices held over the past five financial years:

- Member of the Board of the association TECH'IN France
- 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, France

Cristel de Rouvray

Board member and Chief Executive Officer

Date of birth: 10/15/1976

French, American

Cristel de Rouvray was appointed Chief Executive Officer on February 1, 2019. Cristel was Chairman of the Compensation, Nomination and Governance Committee from 2007 to 2019 and Board Leader from 2015. A graduate of Stanford University and the London School of Economics, where she obtained a Ph.D. in economics. She has 14 years of experience as a Director at College Track, a US non-profit organization.

Current offices held outside the Group:

None

Expired offices held over the past five years:

None

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

Charles-Helen des Isnards

Independent Board member

Date of birth: 01/01/1945

French

Charles-Helen des Isnards is a graduate of the Paris Institute of Political Studies and holds a degree in law. 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.

Current offices held outside the Group:

- Member of the Board of the Day-Solvay Foundation

Expired offices held over the past five years:

- Member of the Board of the association *Les Arts Florissants*
- Member of the Supervisory Board of the company Nature & Découvertes

Other current functions:

- Senior Advisor of CAP M – New York, independent consulting firm on strategy and M&A

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

Éric d'Hotelans

Independent Board member

Date of birth: 07/03/1950

French

Éric d'Hotelans held positions in the information technology sector, first at Tandem (US computer manufacturer, taken over by HP), where he headed the Europe/Finance Business Unit. In 1998, he joined CMG, one of the oldest European IT services companies, as a member of the Executive Committee. In this capacity, he created CMG France (1,200 employees), the Group's French subsidiary, of which he became Chairman and CEO. He left CMG group in 2003, following its acquisition by UK group Logica. He then participated in the development of an investment fund based in Riyadh, Saudi Arabia, specializing in research and analysis of IT-related activities. In 2003, he joined the Board of Directors of M6 Group as Deputy Chairman in charge of management activities. President of the Group's online sales since 2009, he retired in July 2017.

Current offices held outside the Group:

- Chair of the M6 Group Corporate Foundation

Expired offices held over the past five years:

- President of the company Home Shopping Services SA
- President of the company T-Commerce SAS
- Member of the Board of the company Société Nouvelle de Distribution SA
- Member of the Board of the company Métropole Production SA
- 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, France

Véronique Jacq

Independent Board member

Date 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 outside the Group:

- Member of the Board of the company Evaneos
- Member of the Board of the company OpenClassrooms
- Member of the Board of the company Scality
- Member of Board of the company Klaxoon

Expired offices held over the past five years:

- Member of the Board of the company Netatmo
- Censor of the company DelfMEMS
- Censor of the company Bonitasoft
- Censor of the company Teads

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

Rajani Ramanathan

Independent Board member

Date of birth: 03/25/1967

American, Indian

Rajani Ramanathan has held a variety of positions, from running her own companies to scaling a multi-billion company from a startup to a fully operational business. Currently she serves as an independent Board member at CloudCherry and serves as either a Board member/advisor/investor in several technology startups including Vayu Technology corp., Invicara, Fitbliss, Boon VR, Feathercap and has previously advised companies such as Medium, Pipefy, Growbot, Lifograph, Traction Labs, Relatas, Realine TechnologyWizcal, SaferMobility and Trendbrew to name a few. She joined Salesforce.com in 2000, when it was a very small startup, and she helped built it into a high growth Fortune 500 company during her tenure of 14 years. In her most recent role as COO (EVP) of Technology & Products, her responsibilities spanned from delivering highly innovative products, while ensuring every employee can do the best work in their careers. In 2014, she was awarded the YWCA TWIN (Tribute to Women and Industry) Award, which has long been considered one of Silicon Valley's most prestigious awards honoring women who exemplify leadership excellence in executive-level positions.

Current offices held outside the Group:

- Member of the Board of the company CloudCherry
- Member of the Board of the company Vavu

Expired offices held over the past five years:

None

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

Yves de Balmann

Independent Board member

Date 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.

Current offices held outside the Group:

- 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

Expired 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, France

2.3.3. Operation of the Board of Directors

2.3.3.1. Internal rules of the Board of Directors

The Board of Directors adopted internal rules which set out the operational procedures of the Board and its Committees, as well as the rules of professional ethics applicable to all Directors. These internal rules were reviewed and approved by the Board of Directors on April 12, 2019. They can be consulted on the Company's website (www.esi-group.com). Each member receives a copy of these internal rules upon being appointed.

In accordance with recommendations of the Middlenext Code (R.7), these internal rules specify in particular the following points:

- the role of the Board and, as the case may be, operations subject to the prior authorization of the Board;
- composition of the Board / independence criteria of the members;
- definition of the missions of any specialized committees set up;
- duties of the members (deontology: loyalty, non-competition, disclosure of conflicts of interest and duty of abstention, ethics, confidentiality, etc.);
- operation of the Board (frequency, convening, information of the members, self-assessment, use of videoconferencing and telecommunication facilities...);
- protection of corporate officers: liability insurance for corporate officers;
- rules for determining the remuneration of directors;
- the question of succession plan of the management and key people.

2.3.3.2. Professional ethics of Board members and prevention of conflicts of interest

Regarding professional ethics, it Board members refer to the Director Charter set forth by the French Institute of Corporate Directors (IFA) and appended to the internal rules of the Board of Directors.

Concerning prevention and management of conflicts of interest, the internal rules recommend that each Director strive to avoid any potential conflict between his moral and material interests and those of the Company. Each Director is bound to inform the Board of any potential conflict of interest. Should the Director be unable to avoid a conflict of interest, he must abstain from taking part in the debates as well as any decision on the subjects concerned.

To the Company's knowledge and as at the date this Registration Document, there is no conflict of interest between the duties of the individual Board members with respect to the Company and their private interest and other duties.

2.3.3.3. 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;
- allocating attendance fees;
- creating committees within the Board of Directors, defining their responsibilities and operational procedures, appointing and determining the compensation of the members of these committees;
- establishing and updating the internal rules of procedure of the Board of Directors.

Certain transactions considered to be outside the scope of day-to-day management of business are subject to the prior authorization of the Board of Directors, as defined by the internal rules (Section 2.2.4.1 of this Registration Document).

2.3.3.4. Organization of the Board of Directors' work

In accordance with the internal rules of procedure, the Directors shall each receive, within a reasonable time before each meeting of the Board, a file containing the agenda of the meeting, the draft minutes of the previous meeting and any relevant documentation relating to each of the items on the agenda. The Chairman answers to requests from Directors for additional information. The Directors consider they receive a complete and sufficient information to fulfill their mission.

In addition, each issue raised during the session is thoroughly discussed and debated among members before being put to the vote at the end of the discussion. Lastly, the Directors are regularly informed between meetings whenever the Company's situation requires, in accordance with Recommendation R.4 of the Middlenext Code.

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 internal rules 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 sale;
- 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 set out 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 has a casting vote. In accordance with the provisions of the articles of association, Board members who attend the Board meeting *via* videoconference or teleconference are considered present as for the quorum. This provision does not apply to decisions for which the French Commercial Code expressly excludes the use of this process.

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

2.3.3.5. Works of the Board of Directors in 2018

In 2018, the Board of Directors held eight meetings including the Board retreat. The attendance rate was 92.2%.

ATTENDANCE OF DIRECTORS AT BOARD MEETINGS IN 2018

Dates of Board of Directors' meetings	03/14/2018	04/17/2018	07/18/2018	Board retreat 07/29 to 31/2018	09/18/2018	11/02/2018	12/19/2018	01/24/2019	% of attendance (Board retreat excluded)	% of overall attendance
Alain de Rouvray	✓	✓	✓	✓	✓	✓	✓	✓	100	100
Vincent Chaillou	✓	✓	✓	✓	✓	✓	✓	✓	100	100
Cristel de Rouvray	✓	✓	✓	✓	✓	✓	✓	✓	100	100
Charles-Helen des Isnards	✓	✓	✓	✓	✓	✓	✓	✓	100	100
Éric d'Hotelans	✓	✓	✓	✓	✓		✓	✓	86	87.5
Véronique Jacq	✓	✓	✓	✓	✓		✓	✓	86	87.5
Rajani Ramanathan	✓	✓		✓	✓		✓		57	62.5
Yves de Balmann	✓	✓	✓	✓	✓	✓	✓	✓	100	100
OVERALL ATTENDANCE									**91.1**	**92.2**

ATTENDANCE OF DIRECTORS AT COMMITTEES' MEETINGS IN 2018

Director	Strategic Committee		Audit Committee		Compensation, Nomination and Governance Committee[1]		Technology and Marketing Committee	
	Attendance rate	Number of meetings	Attendance rate	Number of meetings	Attendance rate	Number of meetings	Attendance rate	Number of meetings
Alain de Rouvray	100%	3/3	-	-	-	-	75%	3/4
Vincent Chaillou	100%	3/3	-	-	-	-	100%	4/4
Cristel de Rouvray	100%	3/3	-	-	100%	4/4	-	-
Charles-Helen des Isnards	100%	3/3	100%	5/5	100%	4/4	-	-
Éric d'Hotelans	100%	3/3	100%	5/5	100%	4/4	-	-
Véronique Jacq	100%	3/3	100%	5/5	-	-	100%	4/4
Rajani Ramanathan	100%	3/3	-	-	100%	4/4	100%	4/4
Yves de Balmann	100%	3/3	-	-	-	-	-	-
OVERALL ATTENDANCE RATE	**100%**	**-**	**100%**	**-**	**100%**	**-**	**93.8%**	**-**

(1) The Compensation Committee and the Nomination and Governance Committee have been dissociated into two separate committees by decision of the Board of Directors on December 19, 2018 with effect from February 1, 2019.

In 2018, the Board of Directors deliberated on the following items:

Meeting date	Agenda
03/14/2018	• Update on activity • Review and approval of turnover for 2018 financial year ended on January 31, 2018 • Capital increase following exercise of options during financial year ended on January 31, 2018 • Annual authorization to issue sureties, endorsements and guarantees in order to guarantee the debts and contractual commitments of ESI Group subsidiaries
04/17/2018	• Budget approval for financial year ended on January 31, 2018 • Closing of accounts for financial year ended on January 31, 2018 • Review of regulated agreements • Update on Directors' offices • Compensation of Corporate Officers • Update on delegations • Convening of the Combined Shareholders' Meeting • Review and approval of reports to the Combined Shareholders' Meeting of July 18, 2018 • Strategic orientations
07/18/2018	• Implementation of the share buyback program authorized by the Combined Shareholders' Meeting of July 18, 2018 • Allocation of free shares • Allocation of stock-options
07/29 to 07/31/2018 Board retreat	• Perspectives related to Industry 4.0 • Review of committees' objectives • Review of governance, succession plan and financing
09/18/2018	• Review and approval of 2018 first-half year results • Report on Board Retreat and 2018/2019 planning for the committees • Change of closing date • Compensation of Corporate Officers
11/02/2018	• Performance conditions - Stock-options plan and free shares
12/19/2018	• Approval of syndicated loan • Governance update • Free shares - Collective plan No. 7: expiration of the acquisition period
01/24/2019	• Review and approval of Budget approval for 2019 financial year • Compensation of legal representatives

2.3.3.6. Board assessment

In accordance with Middlenext Code Recommendation R.11 the Board of Directors carried out during 2018 financial year, a yearly internal self-assessment of its composition, organization and mode of operation. This assessment was performed using a questionnaire addressed to each Director. The results of the self-assessment were discussed and summarized during the Board Retreat. Proposals for improvement were made regarding in particular the launch of financial and administrative tools, process for prioritization in recruitments and change of closing date. Debates arose on governance and its evolution.

2.3.4. Specialized committees

The Board of Directors may decide on the creation within its Board of committees of which it determines the composition (see Section 2.3.1 above) and defines the missions in the internal rules. The Committees carry out an activity under the Board's sole responsibility. The Board of Directors remains the decision-making body. The purpose of the committees is to optimize the discussions of the Board of Directors and to ensure it 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 Committee[(1)];
- the Nomination and Governance Committee[(1)];
- the Technology and Marketing Committee.

The attendance of the Directors at the committees' meetings during financial year ended on January 31, 2019 is presented under Section 2.3.3.5 above.

2.3.4.1. Strategic Committee

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.

(1) The Compensation Committee and the Nomination and Governance Committee have been dissociated into two separate committees by decision of the Board of Directors on December 19, 2018 with effect from February 1, 2019.

2.3.4.2. 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 attend the meetings of the Audit Committee as guests.

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 on its activities and 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.

2.3.4.3. Compensation Committee

The mission of the Compensation Committee is to prepare the decisions of the Board of Directors concerning:

- the compensation policy of the Group, in particular for key directors and officers, based on information provided by the Finance and Human Resources Departments;
- the general policy to grant options to subscribe or purchase shares or free shares, reported in the annual report and the special report dedicated to the shareholders at the General Meeting, and the frequency of allocations;
- the allocation of stock options or purchase of shares in favor of employees and/or corporate officers, as well as any pattern of ownership of Employees (profit sharing…), to issue an opinion on the legal and financial conditions of these plans, and the list of beneficiaries related to strategic goals;
- the Company's policy on equal pay and equal wages for all employees and between women and men (Article L. 225-37-1 of the French Commercial Code).

2.3.4.4. Nomination and Governance Committee

The mission of Nomination and Governance Committee is to prepare the decisions of the Board of Directors concerning:

- the composition of the Board in view of the composition and evolution of the shareholding of the Company, research and evaluation of potential candidates, the opportunity of reappointments;
- the procedure for selecting future independent Directors;
- the succession plan for corporate officers in case of unexpected vacancy, hiring, nomination or dismissal of officers;
- the criteria of independence of Directors and assessment of independence;
- the assessment procedures of the functioning of the Board and its Committees;
- the recruitment of executives for key activities and functions of the Company including members of the GEC;
- the implementation of a new organization of the Group's activities that may have an impact on the responsibilities of the members of the GEC.

2.3.4.5. 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.

2.3.5. Relationships with shareholders

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.

2.4. Compensation paid to the Directors and the management

2.4.1. Compensation of the Board of Directors

2.4.1.1. Attendance fees paid to Directors for financial year ended on January 31, 2019

Summary table of attendance fees and other components of compensation paid to Directors (Table 3 of AMF nomenclature)

Attendance fees paid to executive and non-executive corporate officers	FY 2018	FY 2017
EXECUTIVE CORPORATE OFFICERS		
Alain de Rouvray(1)	10,000	10,000
Vincent Chaillou	6,000	6,000
NON-EXECUTIVE CORPORATE OFFICERS		
Cristel de Rouvray(2)		
• Attendance fees	28,000	17,500
• Other compensation(3)	114,894	82,105
Charles-Helen des Isnards	42,000	41,500
Éric d'Hotelans	26,471	16,500
Véronique Jacq	16,471	11,200
Rajani Ramanathan	30,200	27,975
Yves de Balmann	19,000	17,750
TOTAL		
• Attendance fees	**178,142**	148,425
• Other compensation	**114,894**	82,105

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).
(2) Cristel de Rouvray was appointed CEO from February 1, 2019.
(3) Other compensation of Cristel de Rouvray was paid under the related party agreements as presented under Sections 2.5.1 and 2.6 of this Registration Document. It is specified as necessary that at the General Meeting of July 18, 2018, Cristel de Rouvray did not take part in the vote in the fourth resolution on the approval of the regulated agreement of which she is a party.

The Combined Shareholders 'Meeting of July 18, 2018 maintained at €180,000 the maximum aggregate amount of attendance fees attributable to the Directors for the 2018 financial year, stating that the allocation of this amount would be made by the Board of Directors between its members.

2.4.1.2. Compensation policy applicable to Directors for 2019 financial year

As part of their mandate, the Directors receive attendance fees, the total amount of which is set by the General Meeting. Their distribution is made, on proposal of the Compensation Committee to the Board of Directors, according to criteria of frequency of meetings, attendance and participation or chairmanship of specialized Committees and with regard to special missions that may be entrusted (R.10). Some Directors receive a specific allocation of tokens for special assignments entrusted by the Board during the financial year.

It will be proposed to the Combined General Meeting of July 18, 2019 in its 13th resolution to increase the total amount of attendance fees attributable to the Directors for the 2019 financial year from €180,000 to €280,000. This proposal to increase the maximum aggregate amount of attendance fees is notably related to the remuneration policy attributable to the Chairman of the Board of Directors for the 2019 financial year, which will also be submitted to shareholders for approval at the next Shareholders' Meeting of July 18, 2019 in its 7th resolution (see section 2.4.1.3 of this Registration Document) pursuant to Article L. 225-37-2 of the French Commercial Code.

In this context, the table below summarizes the allocation of attendance fees according to the compensation policy attributable to the Board of Directors and in particular to the Chairman of the Board of Directors, which is submitted to the shareholders' vote.

Allocation of attendance fees *(per year, in €)*

	Board of Directors	Board Retreat	Strategic Committee, Audit Committee, Technology and Marketing Committee(2)	Compensation Committee, Nomination and Governance Committee(2)	Committee chairmanship(2)	Specific mission(3)
Independent director(1)	2,500	2,500	4,000	2,000	5,000	On a case by case basis, depending on the nature and importance of the mission
Director - Chief Operating Officer(4)	6,000	NA	NA	NA	NA	NA
Director - CEO(4)	10,000	NA	NA	NA	NA	NA
Chairman of the Board of Directors(4)	100,000	NA	NA	NA	NA	NA
TOTAL ATTENDANCE FEES SUBJECT TO THE APPROVAL OF THE SHAREHOLDERS' MEETING OF JULY 19, 2019: €280,000						

(1) Payment subject to an annual presence at 100%, failing which the amount is calculated in proportion to the annual presence.
(2) For each committee.
(3) For each mission.
(4) Fixed payment not subject to presence condition.

2.4.1.3. Draft resolution of the Board of Directors pursuant to Article L. 225-37-2 of the French Commercial Code submitted to the approval of the Combined Shareholders' Meeting of July 18, 2019

Pursuant to Article L. 225-37-2 of the French Commercial Code, the Board of Directors submits for the approval of the Combined General Meeting of July 18, 2019, the principles and criteria for determining, allocating and distributing allocation of the fixed, variable and exceptional components of total compensation and benefits of any kind attributable to the Chairman of the Board of Directors, see below draft resolution No. 7:

Resolution No. 7

The General Meeting, pursuant to Article L. 225-37-2 of the French Commercial Code (paragraph 1), approves the principles and criteria for the determination, distribution and allocation of fixed, variable components and exceptional components of total compensation and benefits of any kind, attributable to the Chairman of the Board of Directors for the 2019 financial year, as presented in the corporate governance report of the Board of Directors referred to in Article L. 225-37 of the French Commercial Code and set out in the 2018 Registration Document under Section 2.4.1.2.

2.4.2. Compensation to the Executive corporate officers

2.4.2.1. Compensations paid to the Chief Executive Officer and Chief Operating Officers for financial year ended on January 31, 2019

The following tables are prepared in accordance with the recommendation No. 2009-16 of the French Stock Market Authority (*Autorité des Marchés Financiers* – AMF). They detail the amounts of remuneration and benefits paid, as well as the amounts due for the financial year ended January 31, 2019.

2.4.2.1.1. Summary table of compensation and stock options granted to each executive corporate officer (Table 1 of AMF nomenclature)

(in €)	FY 2018	FY 2017
ALAIN DE ROUVRAY, CEO UNTIL JANUARY 31, 2019[(1)]		
Compensation due for the year (detailed in 2.4.2.1.2 below)	548,533	554,579
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, CHIEF OPERATING OFFICER		
Compensation due for the year (detailed in 2.4.2.1.2 below)	229,391	243,308
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	81,260	None
Value of provisions for post-employment benefits	74,456	74,456
CHRISTOPHER ST JOHN, CHIEF OPERATING OFFICER		
Compensation due for the year (detailed in 2.4.2.1.2 below)	243,065	244,819
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	81,260	None
Value of provisions for post-employment benefits	22,206	22,206

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

2.4.2.1.2. Summary table of compensation to each executive corporate officer (Table 2 of AMF nomenclature)

Alain de Rouvray CEO until January 31, 2019(1)	2018		2017	
	Amount due	Amount paid	Amount due	Amount paid
Fixed compensation	340,444	340,444	350,109	350,109
Annual variable compensation	49,996	41,007	42,172	77,724
Multi-annual variable compensation	None	None	None	None
Exceptional compensation	None	None	None	None
Attendance fees	10,000	10,000	10,000	10,000
Benefits in kind	148,093	148,093	152,298	152,298
TOTAL	**548,533**	**539,544**	**554,579**	**590,131**

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

Vincent Chaillou Chief Operating Officer	2018		2017	
	Amount due	Amount paid	Amount due	Amount paid
Fixed compensation	198,550	198,550	198,550	198,550
Annual variable compensation	16,983	16,961	30,850	46,225
Multi-annual variable compensation	None	None	None	None
Exceptional compensation	None	None	None	None
Attendance fees	6,000	6,000	6,000	6,000
Benefits in kind	7,858	7,858	7,908	7,908
TOTAL	**229,391**	**229,369**	**243,308**	**258,683**

Christopher St John Chief Operating Officer	2018		2017	
	Amount due	Amount paid	Amount due	Amount paid
Fixed compensation	177,650	177,650	177,650	177,650
Annual variable compensation	27,460	0	29,681	48,707
Multi-annual variable compensation	None	None	None	None
Exceptional compensation	None	None	None	None
Attendance fees	None	None	None	None
Benefits in kind	37,954	4,338	37,488	37,488
TOTAL	**243,065**	**181,988**	**244,819**	**263,845**

2.4.2.1.3. Summary table of attendance fees and other components of compensation paid to Directors (Table 3 of AMF nomenclature)

Please refer to Section 2.4.1.1 above of the Registration Document.

2.4.2.1.4. Share subscription or purchase options granted to each executive corporate officer by the Company and any Group company during financial year ended on January 31, 2019 (Table 4 of AMF nomenclature)

Share subscription or purchase options granted during the year to each executive corporate officer by the Company and any Group company

Name of the executive corporate officer	Plan N° and date	Type of options (purchase or subscription)	Value of options on the method used for the consolidated financial statements	Number of options granted during the year	Exercise price	Exercise period
Alain de Rouvray CEO until January 31, 2019(1)						
Vincent Chaillou Chief Operating Officer			None			
Christopher St John Chief Operating Officer						
TOTAL						

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

2.4.2.1.5. Share subscription or purchase options exercised to each executive corporate officer by the Company and any Group company during financial year ended on January 31, 2019 (Table 5 of AMF nomenclature)

Share subscription or purchase options exercised during the year to each executive corporate officer by the Company and any Group company

Name of the executive corporate officer	Plan N° and date	Number of options exercised during the year	Exercise price
Alain de Rouvray CEO until January 31, 2019(1)			
Vincent Chaillou Chief Operating Officer		None	
Christopher St John Chief Operating Officer			
TOTAL			

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

2.4.2.1.6. Free shares allocated to each executive corporate officer during financial year ended on January 31, 2019 (Table 6 of AMF nomenclature)

Free shares allocated to each executive corporate officer

Free shares allocated by the Shareholders' Meeting during the year to each executive corporate officer by the Company and any Group company	Plan No. and date	Number of shares allocated during the year	Value of shares on the method used for the consolidated financial statements	Acquisition date	Availability date	Performance conditions
Alain de Rouvray CEO until January 31, 2019(1)	None	None	None	None	None	None
Vincent Chaillou Chief Operating Officer	No. 9 & 9 *Bis* 07/18/2018	2,010	40.63	07/18/2021	2020 and 2021	yes
Christopher St John Chief Operating Officer	No. 9 & 9 *Bis* 07/18/2018	2,010	40.63	07/18/2021	2020 and 2021	yes
TOTAL		**4,020**	**40.63**			

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

At the meeting of July 18, 2018, the Board of Directors proceeded, on the proposal of the Compensation, Nomination and Governance Committee, to the free allocation of a maximum total number of 28,560 common shares of the Company at a nominal value of €3 each, for the benefit of beneficiaries, managers of the Company and its related companies, of which 10,619 free shares under Plan 9, 2,441 free shares under Plan 9 *Bis* and 15,500 free shares under Plan 9 *Ter.*

In accordance with the terms of Plan 9, the allocation of bonus shares to the beneficiaries will become final at the end of a 36-month vesting period. The definitive allocation of free shares to the beneficiaries is subject to compliance with conditions of presence by them, throughout the vesting period, as well as performance conditions. The Board will have the option to opt for the delivery of existing shares or to be issued.

In accordance with the terms of Plan 9 *Bis,* the allocation of free shares to the beneficiaries will become final after a vesting period of 48 months. The definitive allocation of the free shares to the beneficiaries is subject to compliance with conditions of presence by them, throughout the vesting period. The Board will have the option to opt for the delivery of existing shares or to be issued. As of the definitive allocation, the beneficiaries will have to keep these shares, without being able to sell them, during a retention period of 24 months.

In accordance with the terms of Plan 9 *Ter,* the allocation of free shares to beneficiaries will become final at the end of a vesting period, the duration of which will be different depending on the shares allocated in tranches 1, 2 or 3 and 4, ranging from 24 to 48 months. The definitive allocation of free shares to beneficiaries is conditional upon the latter's compliance with conditions of presence throughout the vesting period. The Board will have the option to opt for the delivery of existing shares or to be issued. From the definitive allocation, the beneficiaries will have to keep these shares, without being able to sell them, during a retention period, the duration of which will also vary according to the tranche, ranging from 0 to 24 months.

2.4.2.1.7. Free shares vested to each executive corporate officer during financial year ended on January 31, 2019 (Table 7 of AMF nomenclature)

Free shares allocated vested to each executive corporate officers	Plan N° and date	Number of shares vested available during the year	Acquisition conditions
Alain de Rouvray CEO until January 31, 2019(1)	None	None	None
Vincent Chaillou Chief Operating Officer	No. 6 07/21/2016	5,000	attendance
Christopher St John Chief Operating Officer	No. 6 07/21/2016	5,000	attendance
TOTAL		**10,000**	

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

2.4.2.1.8. History of share subscription or purchase option allocations (Table 8 of AMF nomenclature)

Date of Shareholders' Meeting	Plan No. 10: 06/26/2012	Plan No. 17: 07/24/2014	Plan No. 9: 06/29/2017
Date of the Board of Directors' meeting(s)	12/19/2012 02/07/2014 03/26/2015 07/22/2015	07/22/2015 03/11/2016 05/05/2017	07/18/2018
Number of options allocated	180,000	37,400	43,950
Of which			
• Alain de Rouvray, CEO until January 31, 2019[(1)]	N/A	N/A	N/A
• Vincent Chaillou, Chief Operating Officer	3,500	0	0
• Christopher St John, Chief Operating Officer	2,975	0	0
Start date of exercise period	2016 to 2019	2017 to 2021	07/18/2021
Expiration date	2020 to 2025	2023 to 2026	07/18/2026
Exercise price *(in €)*	27.82; 24.42; 21.66; 27.17	27.17; 23.35; 50.92	42.97
Type of option	Subscription	Subscription	Subscription
Options exercised	28,900	2,000	0
Subscription or purchase options cancelled or expired	109,325	14,200	1,250
Options to be exercised as at January 31, 2019	41,775	21,200	42,700

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

Allocation of share subscription options

At the meeting of July 18, 2018, the Board of Directors proceeded, pursuant to the authorization granted by the Combined General Meeting of June 29, 2017, and on the proposal of the Compensation, Nomination and Governance Committee, the allocation of 43,950 share subscription options in total, under Plan 19.

The vesting of options granted under Plan 19 is subject to two conditions:

- 25% of the options granted will vest subject to the condition of continuous and effective presence of the beneficiaries as employees of the Group since the grant date;
- 75% of the options granted will vest subject to the achievement of Group performance conditions.

The options may be exercised from July 18, 2021 and for a period of five years until July 18, 2026.

The maximum potential capital increase will be an overall nominal amount of €128,100, corresponding to 42,700 new shares with a par value of €3 each.

Exercise of share subscription options

The Board of Directors has noted that the number of new shares issued as a result of the exercise of options during 2018 financial year amounted to 1,450 shares with a nominal value of €3 representing an increase in the share capital of the Company of an amount of €4,350, which increased from €18,049,326 to €18,053,676.

Allocation of share purchase options

No grant of share purchase options was made during the 2018 financial year.

SUMMARY TABLE OF SHARE SUBSCRIPTION AND PURCHASE OPTION PLANS TO EMPLOYEES AND CORPORATE OFFICERS

Subscription and purchase option plans	Options to be granted[(1)] as at January 31, 2019	In share capital *(%)*	Options granted[(2)] as at January 31, 2019	Exercise price *(in €)*	In share capital *(%)*	Options exercised as at January 31, 2019	In share capital *(%)*
No. 9 (SM* 06/29/2006)	0	0	0	N/A	0	0	0
No. 10 (SM 06/26/2012)	0	0	39,300	27.82	0.69	28,900	0.48
			375	24.42			
			2,100	27.17			
			Total: 41,775				
No. 15 (SM 07/23/2013)	0	0	0	N/A	0	0	0
No. 17 (SM 07/24/2014)	142,600	2.37	4,900	27.17	0.34	2,000	0.03
			16,300	50.92			
			Total: 21,200				
No. 18 (SM 07/21/2017)	297,753	4.95	0	N/A	0	0	
No. 19 (SM 07/18/2018)	136,050	2.26	42,700	42.97		0	0
TOTAL	**577,653**	**9.52**	**102,675**	**-**	**1.03**	**30,900**	**0.51%**

** SM: Shareholders' Meeting.*
(1) Options to be granted represent the difference between the number of stock-options authorized by the Shareholders' Meeting and the number of stock-options granted by the Board of Directors as at January 31, 2019.
(2) Options expired or cancelled resulting from an employee's departure are deducted from the options granted as at January 31, 2019.

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2.4.2.1.9. Share subscription or purchase options granted to the top 10 non-corporate officers beneficiary employees and options exercised by them during financial year ended on January 31, 2019 (Table 9 of AMF nomenclature)

Share subscription or purchase options granted to the top 10 non-corporate officers beneficiary employees and options exercised by them	Total number of options granted: shares subscribed or purchased	Weighted average price *(in €)*	Plan No.
Options granted during the year to the ten employees of the Company and its Group which represent the largest number of options allocated	18,700	42.97	19
Options held and exercised during the year by the ten employees of the Company and its Group which represent the largest number of options purchased or subscribed	1,450	27.82	10

2.4.2.1.10. History of free shares allocations (Table 10 of AMF nomenclature)

Date of Shareholders' Meeting	Plan No. 6: 07/21/2016	Plan No. 7: 07/21/2016	Plan No. 8: 07/21/2016	Plans No. 9, 9 *Bis* & 9 *Ter*: 07/18/2018
Date of the Board of Directors' meeting	07/21/2016	12/23/2016	08/01/2017	07/18/2018
Number of shares allocated	25,000	2,275	9,000	28,560
Of which				
• Alain de Rouvray, CEO until January 31, 2019(1)	N/A	N/A	N/A	N/A
• Vincent Chaillou, Chief Operating Officer	5,000	0	0	2010
• Christopher St John, Chief Operating Officer	5,000	0	0	2010
Date of delivery	From 07/21/2018	12/23/2018	From 08/01/2019	From 07/18/2020
Term of vesting period	07/21/2020	12/23/2020	08/01/2021	07/19/2022
Number of shares delivered	16,688	1,962	0	0
Number of shares cancelled or expired	0	313	0	149
Remaining shares as at January 31, 2019	8,332	0	9,000	28,411

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

2.4.2.1.11. Summary table of benefits or advantages to executive corporate officers (Table 11 of AMF nomenclature)

Executive corporate officers	Employment contract		Supplemental pension plan		Compensation or benefits due or likely to be due following termination or position change	
	Yes	No	Yes	No	Yes	No
Alain de Rouvray CEO until January 31, 2019(1)		X		X		X
Vincent Chaillou Chief Operating Officer	Suspended			X		X
Christopher St John Chief Operating Officer	Suspended			X		X

(1) Following the dissociation of the functions of Chairman of the Board of Directors and CEO, Alain de Rouvray acts exclusively as Chairman of the Board of Directors as from February 1, 2019 (see Section 2.2.2 of the Registration Document).

2.4.2.1.12. Summary table of compensation to executive corporate officers

The Ordinary General Meeting to be held on July 18, 2019 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 financial year ended on January 31, 2019 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 2018 FINANCIAL YEAR TO ALAIN DE ROUVRAY, CHIEF EXECUTIVE OFFICER

Components of the compensation	Amount or accounting valuation submitted for approval *(in €)*	Description
Fixed compensation	340,444	The fixed compensation payable to Alain de Rouvray as Chief Executive Officer in respect of the 2018 financial year amounts to $400,000 (unchanged compared to 2017). This compensation equals €340,444.
Variable annual compensation	49,996	The amount of the variable annual compensation payable to Alain de Rouvray is limited to 50% of his fixed compensation. It is subject to an assessment based exclusively on quantitative criteria related to the profitability of the Group. These objectives are set at the beginning of the year by the Board of Directors on the recommendation of the Compensation Committee. The variable compensation is assessed by the Board of Directors following the recommendation of the Compensation Committee at the end of the year. The variable compensation payable to Alain de Rouvray as Chief Executive Officer with respect to the 2018 financial year amounts to $58,741.81 which equals €49,996, representing 29.4% 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 2017 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	148,093	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 2017 financial year, and equals €148,093.
Severance pay	N/A	Alain de Rouvray is not a beneficiary of any severance pay.
Retirement compensation	N/A	Alain de Rouvray is not a beneficiary of any retirement compensation.
Non-compete compensation	N/A	Alain de Rouvray is not a beneficiary any non-compete compensation.
Supplementary retirement plan	N/A	Alain de Rouvray is not a beneficiary of any supplementary retirement plan.

COMPENSATION PAYABLE OR GRANTED FOR THE 2018 FINANCIAL YEAR TO VINCENT CHAILLOU, CHIEF OPERATING OFFICER

Components of the compensation	Amount or accounting valuation submitted for approval *(in €)*	Description
Fixed compensation	198,550	The fixed compensation payable to Vincent Chaillou as Chief Operating Officer in respect of the 2018 financial year amounts to €198,550 (unchanged compared to 2017).
Variable annual compensation	16,983	The amount of the variable annual compensation payable to Vincent Chaillou is limited to 60% of his fixed compensation. It is subject to an assessment based exclusively on quantitative criteria related to the profitability of the Group. These objectives are set at the beginning of the year by the Board of Directors on the recommendation of the Compensation Committee. The variable compensation is assessed by the Board of Directors following the recommendation of the Compensation Committee at the end of the year. The variable compensation payable to Vincent Chaillou as Chief Operating Officer with respect to the 2018 financial year amounts to €16,983 which equals 14.15% 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 2017 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	7,858	The benefits in kind include an allowance for vehicle of €7,858.
Severance pay	N/A	Vincent Chaillou is not a beneficiary of any severance pay.
Retirement compensation	N/A	Vincent Chaillou is not a beneficiary of any retirement compensation.
Non-compete compensation	N/A	Vincent Chaillou is not a beneficiary any non-compete compensation.
Supplementary retirement plan	N/A	Vincent Chaillou is not a beneficiary of any supplementary retirement plan.

COMPENSATION PAYABLE OR GRANTED FOR THE 2018 FINANCIAL YEAR TO CHRISTOPHER ST JOHN, CHIEF OPERATING OFFICER

Components of the compensation	Amount or accounting valuation submitted for approval *(in €)*	Description
Fixed compensation	177,650	The fixed compensation payable to Christopher St John as Chief Operating Officer in respect of the 2018 financial year amounts to €177,650 (unchanged compared to 2017).
Variable annual compensation	27,460	The amount of the variable annual compensation payable to Christopher St John is limited to 60% of his fixed compensation. It is subject to an assessment based exclusively on quantitative criteria related to the profitability of the Group. These objectives are set at the beginning of the year by the Board of Directors on the recommendation of the Compensation Committee. The variable compensation is assessed by the Board of Directors following the recommendation of the Compensation Committee at the end of the year. The variable compensation payable to Christopher St John as Chief Operating Officer in respect of the 2018 financial year amounts to €27,460 which equals 25.0% 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	Christopher 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	37,954	The benefits in kind include a housing allowance of €37,954.
Severance pay	N/A	Christopher St John is not a beneficiary of any severance pay.
Retirement plan	N/A	Christopher St John is not a beneficiary of any retirement compensation.
Non-compete compensation	N/A	Christopher St John is not a beneficiary any non-compete compensation.
Supplementary retirement plan	N/A	Christopher St John is not a beneficiary of any supplementary retirement plan.

2.4.2.2. Chief Executive Officer and Chief Operating Officers' remuneration policy applicable in 2019 financial year

In accordance with Article L. 225-37-2 of the French Commercial Code, the principles and criteria of definition and allocation of the fixed, variable, exceptional components of the total remuneration as well as benefits in kind payable to the Chief Executive Officer and the Chief Operating Officers (the "**Executive Corporate Officer(s)**" are presented below and will be subject to the approval of the Shareholders' Meeting to be held on July 18, 2019 (see Section 2.4.2.3 below for the draft resolution). The remuneration policy applicable to the Chairman of the Board of Directors is presented under Section 2.4.1.2 above).

Principles of remuneration policy

The principles and criteria governing the remuneration policy of the Executive Corporate Officers and amounts were determined by the Board of Directors upon the recommendation of the Compensation Committee during its meeting dated December 19, 2018.

This remuneration policy applicable to Executive Corporate Officers takes into account the dissociation of functions between the Chairman of the Board of Directors and the Chief Executive Officer as from February 1, 2019 (see Section 2.2.2 above). In addition, it has been established in accordance with the principles of completeness, balance between the elements of remuneration, benchmark, consistency, readability of the rules, measurement and transparency (R.13) such as defined in the Middlenext Code.

Lastly, this remuneration policy must remain consistent with the Company's performance, while ensuring that the objectives of the executives are aligned with the Company's medium-term strategy and take into account the interests of Shareholders.

Remuneration structure

The Chief Executive Officer's remuneration is structured as follows:

- a fixed annual part 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. For 2019, Cristel de Rouvray as CEO will receive an annual fixed amount of $360,000 estimated at €300,000; and
- a variable annual part representing a target ratio of 50% of the fixed remuneration: it is subject to an assessment based exclusively on quantitative criteria related to the profitability of the Group. These objectives are set at the beginning of the year by the Board of Directors on the recommendation of the Compensation Committee. The variable compensation is assessed by the Board of Directors following the recommendation of the Compensation Committee at the end of the year. In accordance with Article L. 225-100 of the French Commercial Code, the payment of variable or exceptional remuneration is subject to the prior approval of this remuneration by the Shareholders' Meeting.

The compensation structure for the Chief Operating Officers consists of:

- a fixed annual part determined by taking into account the level and difficulty of responsibilities, experience in the function, seniority in the Group, and practices in groups or companies of comparable size. The annual fixed compensation of Vincent Chaillou and Christopher St John as Chief Operating Officers will remain unchanged in 2019 compared to 2018 and set respectively at €198,550 and €177,650; and

- a variable annual part representing a target ratio of 60% of the fixed remuneration: it is subject to an evaluation based exclusively on quantitative criteria related to the profitability of the Group. These objectives are set at the beginning of the year by the Board of Directors on the recommendation of the Compensation Committee. The variable compensation is assessed by the Board of Directors following the recommendation of the Compensation Committee at the end of the year. In accordance with Article L. 225-100 of the French Commercial Code, the payment of variable or exceptional remuneration is subject to the prior approval of this remuneration by the Shareholders' Meeting.

Long term share-based compensation

The Group has defined its long-term compensation policy in a global competitive strategy of loyalty and motivation of its managers and employees with regard to market practices. Each long-term compensation plan is subject to the decision of the Board of Directors acting in accordance with the authorization of the Shareholders' Meeting.

Executive Corporate Officers can benefit from stock option plans and free share plans offered as part of the Group's loyalty and motivation policy. The conditions for acquiring and holding these plans apply in the same way to all beneficiaries, whether Corporate Officers or not.

For stock option plans and free shares for the benefit of the Chief Operating Officers, please refer to the tables in Section 2.4.2.1.4 onwards. With respect to Cristel de Rouvray, Chief Executive Officer since February 1, 2019, it is specified that the Board of Directors has, on the date of taking office, decided to grant up to 20,000 share subscription options subject to conditions of presence and performance.

Benefits in kind

Benefits in kind include a Company car or equivalent allowance.

Exceptional compensation

Very specific circumstances (for example because of their importance for the Company, the involvement they require and the difficulties they represent) could give rise to exceptional remuneration granted to Executive Corporate Officers. The award of such remuneration would be exceptional, motivated and justified by the Board. Its payment would be subject to the approval of the Shareholders' Meeting.

Other components of the Executive Corporate Officers' compensation

Severance pay

No Executive Corporate Officer of the Company receives severance pay.

Non-compete clause

No Executive Corporate Officer has a non-compete clause in his corporate office.

Supplementary pension plan

No Executive Corporate Officer has a supplementary pension plan other than mandatory pension plans.

Health benefits and reimbursement scheme

The Executive Corporate Officers of the Company benefit from the pension plan and reimbursement of health expenses applicable to all employees.

Non-combination of employment contract and corporate office

At the time of appointment to the position of Executive Corporate Officer, it is decided to suspend any existing employment contract with the Company for the duration of the office.

As of the date of this Registration Document, there is no employment contract between the Chief Executive Officer and the Company and the employment contracts of the Chief Operating Officers with the Company have been suspended for the duration of their terms of office.

2.4.2.3. Draft resolutions of the Board of Directors pursuant to Article L. 225-37-2 of the French Commercial Code submitted to the approval of the Combined Shareholders' Meeting of July 18, 2019

Pursuant to Article L. 225-37-2 of the French Commercial Code, the Board of Directors submits for the approval of the Combined General Meeting of July 18, 2019, the principles and criteria for the determination, distribution and allocation of the fixed, variable and exceptional components of total compensation and benefits of any kind attributable to Executive Corporate Officers, see below draft resolutions No. 8 and 9:

Resolution No. 8

The General Meeting, pursuant to Article L. 225-37-2 of the French Commercial Code (paragraph 1), approves the principles and criteria for the determination, distribution and allocation of fixed, variable components and exceptional components of total compensation and benefits of any kind, attributable to the Chief Executive Officer for 2019 financial year, as presented in the corporate governance report of the Board of Directors referred to in Article L. 225-37 of the French Commercial Code and set out in the 2018 Registration Document under Section 2.4.2.2.

Resolution No. 9

The General Meeting, pursuant to Article L. 225-37-2 of the French Commercial Code (paragraph 1), approves the principles and criteria for the determination, distribution and allocation of fixed, variable components and exceptional components of total compensation and benefits of any kind, attributable to the Chief Operating Officers for 2019 financial year, as presented in the corporate governance report of the Board of Directors referred to in Article L. 225-37 of the French Commercial Code and set out in the 2018 Registration Document under Section 2.4.2.2.

2.5. Additional information in respect of corporate governance

2.5.1. Regulated agreements and commitments and related party transactions

2.5.1.1. Regulated agreements and commitments

The Statutory Auditors' special report on the regulated agreements and commitments referred to in Articles L. 225-38 *et seq.* of the French Commercial Code for 2018 financial year is set out under Section 2.6 below. To the best of the Company's knowledge, there are no other agreements and regulated commitments.

2.5.1.2. Transactions with related parties

Details of transactions with related parties can be found in note 11 to the consolidated financial statements in Chapter 5 of this Registration Document.

2.5.2. Delegations of authority

At the date of this Registration Document, the Company's share capital amounted to €18,053,676. It was divided into 6,017,892 shares with a nominal value of €3 each, all of the same class, fully paid up.

Apart from the share subscription or purchase option plans and the allocation of bonus shares described in Section 2.4.2.1.8, there is no financial instrument to access the Company's share capital.

TABLE SUMMARIZING CURRENTLY VALID DELEGATIONS GRANTED TO THE BOARD OF DIRECTORS AND USE OF SUCH DELEGATIONS DURING 2018 FINANCIAL YEAR

Resolution number	Purpose	Term	Expiration date	Maximum	Used in 2018 and available as at January 31, 2019
COMBINED GENERAL MEETING OF JUNE 29, 2017					
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 the date of this Registration Document: **43,950** Options remaining: **136,050**
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(1)	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(1)	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(1)	26 months	August 2019	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(1)	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(1)	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(1)	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(1)	26 months	August 2019	Not to exceed 2% of the Company's share capital	None
COMBINED GENERAL MEETING OF JULY 18, 2019					
Resolution 12	Company's purchase of its own shares(1)	18 months	January 2020	Not to exceed 10% of the Company's share capital	None
Resolution 13	Share capital reduction by canceling shares purchased by the Company under Article L. 225-209 of the French Commercial Code	26 months	September 2020	Not to exceed 10% of the Company's share capital per 24-month period	None
Resolution 14	Grant of free shares to eligible employees and executive corporate officers of the Company and affiliated companies	38 months	September 2021	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 2018: **28,560** Free shares granted at January 31, 2018: **28,560** Options remaining: **31,440**

(1) Renewal of the delegation submitted to the vote of the Shareholders' Meeting on July 18, 2019.

2.5.3. Provisions of the articles of association concerning the participation of shareholders in General Meetings

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 financial 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.

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

Pursuant to Article L. 225-100-337-5 of the French Commercial Code, the following points are likely to have an impact on the public offering:

- 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 this Registration Document under the heading “Change in the breakdown of the Company’s share capital”;
- there are no statutory restrictions on the exercise of voting rights and share transfers;
- 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 this Registration Document 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 2.5.2 of this Registration Document;
- any amendments to ESI Group’s articles of association are made in accordance with legal requirements and regulations;
- there are no agreements entered into by the Company that are modified or terminated in the event of a change of control of the Company other than the syndicated loan agreement presented in Chapter 5, notes 7.1.2 and 7.4 of this Registration Document;
- there are no agreements providing for compensation in the event of the departure of members of the Board of Directors.

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2.6. Statutory Auditors' report on regulated agreements and commitments

(Annual General Meeting for the approval of the financial statements for the year ended January 31, 2019)

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.

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 and agreed 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.

Pledge agreements among which in particular a pledge of all the shares that the Company holds or will hold in the share capital of ESI ITI GmbH

Terms and conditions

The Board of Directors in its meeting dated December 19, 2018, authorized the signing by the Company of pledge agreements, among which in particular the pledge of all the shares that the Company holds or will hold in the share capital of ESI ITI GmbH, to guarantee its obligations of reimbursement and payment under the syndicated loan agreed on December 20, 2018 under which the Company obtained (i) a facility of up to a maximum amount of €30,000,000 (ii) a revolving credit facility with a maximum principal amount of €10,000,000 and (iii) to authorize the establishment of an unconfirmed revolving credit facility of a maximum principal amount of €5,000,000.

Persons concerned

- Vincent Chaillou, ESI Group Director and COO and Managing Director of ESI ITI GmbH; and
- Christopher St John, ESI Group Director and COO and Managing Director of ESI ITI GmbH, a Company's subsidiary.

Reason justifying the Company's interest

These security agreements condition the signing of the syndicated loan agreement as described above and thus allow the Company to finance itself.

Consulting agreement between ESI Group and Mrs. Cristel de Rouvray

Terms and conditions

The Board of Directors in its meeting dated December 19, 2018, authorized the signing of a consulting agreement between ESI Group and Cristel de Rouvray, Director of ESI Group, aiming at organizing and implementing a smooth transition to a change in the governance of the Company following the appointment of Cristel de Rouvray as Chief Executive Officer effective from February 1, 2019.

These consultation services are estimated at approximately 220 hours during the period from December 20, 2018 to January 31, 2019 for a maximum amount of $35,000 (US dollars). They include preparation for taking office as Chief Executive Officer, meetings with the Chief Executive Officer currently in place, members of the Executive Committee and senior executives, particularly for the preparation of the 2019 budget, the implementation of the strategic plan for the 2019 and 2020 financial years.

The annual cost as at January 31, 2019 is $31,840.

Person concerned

Cristel de Rouvray, ESI Group Director and CEO from February 1, 2019.

Reason justifying the Company's interest

This agreement enables the Company to prepare its governance for an effective takeover of the Chief Executive Officer effective from February 1, 2019.

Purchase agreement by ESI Group of shares held in ESI US Holdings Inc.

Terms and conditions

The Board of Directors in its meeting dated December 19, 2018, authorized the acquisition by ESI Group of 357 shares representing 51% of the capital of ESI US Holdings Inc. held by Amy (Shelley) and Cristel de Rouvray for a total amount of $43,621.90.

Persons concerned

- Amy (Shelley) de Rouvray, spouse of Alain de Rouvray, Chairman, CEO and main shareholder of ESI Group; and
- Cristel de Rouvray, ESI Group Director and CEO from February 1, 2019.

Reason justifying the Company's interest

This transaction is part of a simplification of the Group's legal structure.

Agreements and commitments previously approved by the Shareholders' Meeting

Agreements and commitments previously approved by the Shareholders' Meeting

Agreements and commitments authorized during previous fiscal year

We have been informed of the execution during the previous fiscal year of the following agreements and commitments, already approved by the Shareholders' Meeting of July 18, 2018 pursuant to the special report of the statutory accounts dated May 23, 2018:

Consulting Service Agreement between ESI North America Inc. and Mrs. Cristel de Rouvray

Terms and conditions

The Board of Directors in its meeting dated April 18, 2017, authorized the Company, via its subsidiary ESI North America Inc., to enter into a consulting agreement with Cristel de Rouvray, Director, representing an estimated maximum annual cost of $100,000 for an average of 52 hours per month The purpose of this Consulting Service Agreement is to grant to Cristel de Rouvray specific missions relating to human resources, consulting, and strategic management. In 2018, within the context of the Company's transformation, these missions consisted in works for the succession plan, implementation of the new stock-option plan, the appointment of a new Chief Financial Officer and the induction of the new Group HR Director.

This agreement was renewed by the Board of Directors on April 17, 2018 for the financial year ended on January 31, 2019 and approved by the Shareholders' Meeting on July 18, 2018.

The total cost as at January 31, 2019 was $100,000.

Person concerned

Cristel de Rouvray, ESI Group Director and CEO from February 1, 2019.

Reason justifying the Company's interest

The purpose of this Consulting Service Agreement is to grant to Cristel de Rouvray specific missions relating to human resources, consulting, and strategic management.

Neuilly-sur-Seine and Paris-La Défense, May 22, 2019

The Statutory Auditors

PricewaterhouseCoopers Audit	Ernst & Young Audit
Thierry Charron	Frédéric Martineau

3 STATEMENT ON EXTRA-FINANCIAL PERFORMANCE

3.1. The methodology

Data collection and consolidation

The Company has implemented a differentiated data collection and consolidation process according to the themes. 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

The Group's ambition is to gradually extend the scope to reach a full and reliable coverage of its subsidiaries. In 2018, 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 99.8% of the total workforce in 2018 (Netherlands are not included).
- Scope of environmental reporting:

  In 2018, the Company included Italy and Brazil 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, Spain, United Kingdom, South Korea, Italy and Spain representing 99% of the total workforce;
- Scope of societal reporting:

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

3.2. ESI – The Product Performance Lifecycle™ Company

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 enable the gradual elimination of tests and physical components and subassembly prototypes during the product conception and manufacturing phases. The virtual prototype of the industrial product thus designed will accelerate its certification and then allow the monitoring and control of its operational performance, helping industry players to achieve their performance and productivity objectives.

Innovative visualization technologies such as ESI 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.

Most importantly, the use of technologies such as big data, System Modeling, Machine Learning, and the Internet of Things (IoT) adds to ESI Group's solutions an interactive space and enables real-time decision-making in an immersive virtual environment.

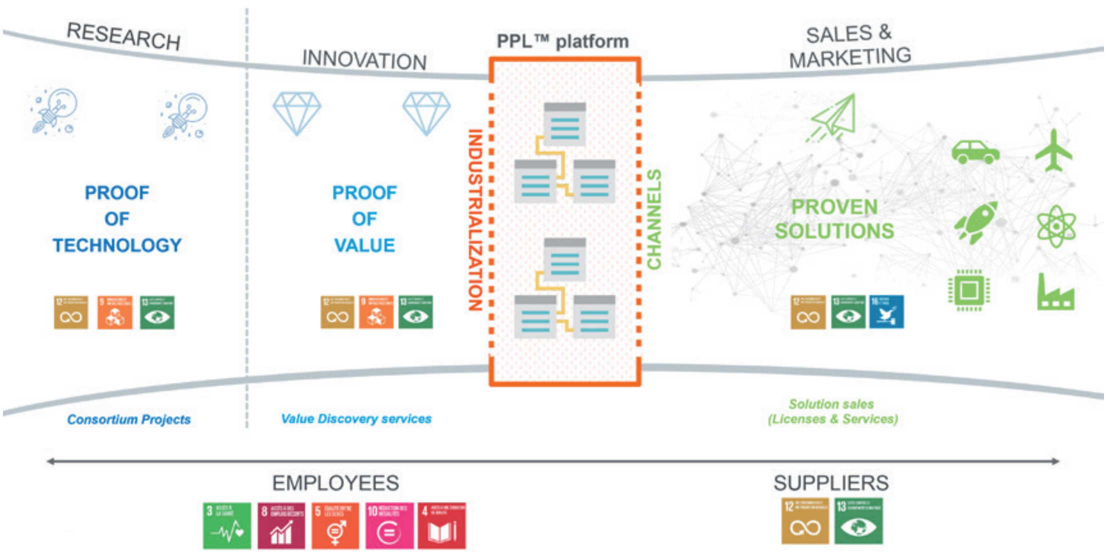
This enhanced offer provides complete control over the lifecycle of an industrial product, from product commissioning to its operational withdrawal including modeling of potential evolutions during its useful life: accounting for flaws, wear and tear, maintenance procedures, and running in of assisted operation.

The virtual prototype can now become agile and intelligent to support industrial manufacturers in 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. 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 $48.1 billion) in April 2019, which included Virtual Prototyping under the category of "Simulation & Analysis Suppliers" (activity estimated at $6.5 billion in 2018). 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. ESI Group's offer is multi-sectorial. Its top four sectors are ground transportation, heavy industry, aeronautic/aerospace and energy. Refer to section 1.1.3 "Main markets" of the 2018 Registration Document for more details about the market in which ESI Group operates.

As a player committed to the world's leading manufacturers, ESI has adapted its organization to accelerate innovation and facilitate knowledge sharing between all its employees.

The organization is structured to enable maturation of technology from conception through proof of value and eventual industrialization. In 2015, the United Nations defined a list of 17 sustainable development goals ("SDGs"), meeting global challenges such as poverty, inequality, education and environmental degradation. Throughout its value chain, ESI Group addresses many of these SDGs:



- Research: 9 – Industry, Innovation and Infrastructure; 12 – Responsible Consumption and Production; 13 – Climate Action;
- Innovation: 9 – Industry, Innovation and Infrastructure; 12 – Responsible Consumption and Production; 13 – Climate Action;
- Sales & marketing: 12 – Responsible Consumption and Production; 13 – Climate Action; 16 – Peace and Justice Strong Institutions;
- Employees: 3 – Good Health and Well-being; 4 – Quality Education; 8 – Decent Work and Economic Growth; 5 – Gender Equality; 10 – Reduced Inequality;
- Suppliers: 12 – Responsible Consumption and Production; 13 – Climate Action.

All the SDGs will be further developed in Section 3.4 of this statement.

3.3. ESI – A committed group

3.3.1. 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.

3.3.2. Our CSR approach

Aware of its responsibility in each of the three pillars of sustainable development, ESI Group has gradually developed a Corporate Social Responsibility (CSR) policy that contributes to shared economic and social development and the preservation of human balance.

ESI Group's ambition is to become the leader in Smart Virtual Prototyping, through a responsible innovation approach that aims for zero real tests, zero real prototypes and zero unexpected production shutdowns. The Group thus intends to be its customers' preferred development partner, capable of understanding and supporting them in their efforts to bring innovative, quality, sustainable, ethical and highly resource-efficient products to market. The Group has carried out a review of major risks and opportunities, including the main CSR issues, that could have a significant impact on its business, financial position or results. For further details, refer to section 1.6 "Risk factors and opportunities" of the 2018 Registration Document.

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. Through its activities, ESI Group has a limited impact on the fight against food waste, food insecurity, respect of animal welfare, as well as the promotion of responsible, fair and sustainable food consumption.

3.3.2.1. Employees – Being a committed employer

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

a. Develop talents and encourage leadership and collaborative management

Human resources are ESI's main source of value. The development of talent is essential to ensure the Group's sustainability. To answer the ever more complex challenges of industrial companies and remain at the forefront of technological innovation, the Group must develop its employees' sense of belonging and constantly improve their expertise.

For this purpose, ESI strives to:

- build a stimulating ecosystem with academic, scientific and industrial partners;
- maintain a continued search for excellence with cutting-edge technologies;
- strengthen scientific management with global experts.

The expertise of ESI's employees is enhanced by their contact with the ecosystem and the implementation of personal development and professional training programs through an ESI Campus platform.

Today, talents are retained thanks to the proposed technological challenge. The Human Resources and Communication Departments work together on concrete actions to strengthen the feeling of belonging within the Group, the "OneESI" culture.

b. Promote diversity and multicultural exchanges

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.

Internally, the teams' diversity is a strength. Various initiatives have been taken to bring people together and share their culture and way of working. The Group is also committed to improve the gender balance within the Company.

3.3.2.2. Customers – Being an outstanding partner

a. Provide innovative and sustainable high-quality solutions that meet our customers' requirements

Manufacturers are facing new challenges:

- A strong competitivity in a global environment
- Higher quality lever at lower price
- Digital transformation
- Increased regulation
- Reduce CO_2 emissions
- Growing consumer interest in environmental aspects

ESI's solutions help its customers dealing with digital transformation challenges and meet the ever-changing regulations that govern their activities.

These solutions provide customers with the following benefits:

- reduce time-to-market;
- avoid product recalls;
- reduce waste associated with prototyping and manufacturing;
- optimize energy consumption;
- reduce gas emissions;
- improve useful life of products;
- reduce total product weight.

In addition to the innovative and sustainable benefits of these solutions, they also reflect the excellence that the Group brings to its customers:

- creation of smart products;
- a unique expertise;
- a range of solutions that take into account the operational performance of the product throughout its lifecycle;
- a high level of requirement with ISO 9001 certification;
- significant R&D investments;
- innovative co-creation projects.

b. Building long term, trusting relationships

ESI Group has adopted an Ethics Charter that sets out the behavior to be adopted in relations with the Group's other employees, customers, suppliers and other partners. All decisions must be taken based on objective and transparent criteria.

As a French company, ESI Group has adapted its Ethics Charter to the "Sapin II" law concerning the fight against corruption. The Group strictly prohibits any form of corruption in its relations with its commercial and institutional partners and with the administration. No financial or in-kind gratuity may be granted for the purpose of obtaining a benefit, and such a gratuity may not be received for the benefit of a company or person.

3.3.2.3. Environment – 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.

a. Develop solutions that contribute to reduce the environmental footprint of manufacturers and respectful with regulatory requirements

ESI's solutions enable its customers to reduce the use of expensive physical prototypes that consume energy, raw materials and time.

As a reminder, ESI's solutions bring to its customers the following environmental benefits:

- reduction of waste associated with prototyping and manufacturing;
- optimization of energy consumption;
- reduction of gas emissions;
- improvement of the useful life of products;
- reduction of the total product weight.

It also answers to gas emissions regulations and recycling requirements, as well as the challenge of rising fuel prices.

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All in all, ESI's solutions enable manufacturers to reduce the costs and time to market of their new products, making them more competitive.

b. Reduce the environmental impact of our facilities

Like any company, ESI has an impact on the environment, although limited as a software company. The Group is committed to encouraging the implementation of best practices in areas where it has the most significant expertise.

3.3.2.4. Civil society – Serving civil society

a. Contribute to innovation and establish partnerships with the academic and scientific communities, as well as with industry leaders

Partnerships are an integral part of the Group's strategy to facilitate and promote virtual prototyping while acting in a sustainable way. ESI Group is particularly attentive to the following items:

- innovate through partnerships with academic and scientific communities and industry leaders;
- be transparent with all its stakeholders;
- support regional development by encouraging local recruitment and partnerships;
- support innovation through co-creation projects.

ESI Group considers that innovation, which is a key component of its business, constantly improves production processes and shortens the conception period and the time required to develop new, more efficient and reliable products. This contributes to more sustainable and responsible consumption and production methods.

b. Act ethically and responsibly

ESI Group aims to be the leader in Smart Virtual Prototyping through a responsible innovation approach. This can only be achieved by acting ethically and responsibly towards all its stakeholders.

In 2016, the Group published an Ethics Charter to promote the respect of its values and confirm its commitment to the main rules of conduct it wishes to see applied internally. This Charter, which exists in six languages, was revised in 2018.

At the same time, an Ethics Committee was set up to ensure the proper application of the Ethics Charter.

The Ethics Committee is responsible for creating an environment in which employees can adhere to the Ethics Charter and ensure that its principles are respected by all on a daily basis. Through this ethical and responsible approach, ESI Group also has to be compliant with the European Union regulation concerning the data protection (GDPR).

3.2.3. CSR distinctions

Gaia Index

ESI Group is awarded first prize of the Gaia campaign 2018 for the third 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.

Global Compact

Since 2018, ESI Group signed the Global Compact (United Nations Global Compact) and thus undertakes to align its CSR strategy on the 10 United Nations principles, relating to human rights, international labor standards, the environment and the fight against corruption. The Group also undertakes to yearly communicate its progress to its stakeholders through the release of a Communication on Progress (COP).

For more information, visit www.unglobalcompact.org.

3.4. Risks and issues of ESI

3.4.1. 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.

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.

ESI Group's policy is based on the following axes:

- ensure a decent work to all its employees;
- promote diversity and multicultural exchanges;

- develop talents and encourage leadership and collaborative management;
- ensure health and safety in the workplace and ensure the provision of social benefits to employees.

This policy 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.

Ensure a decent work

Every company has the responsibility to provide decent working conditions for all its employees. Promoting decent work, with a decent wage and ensuring the well-being of employees are major global challenges in which ESI Group is committed. This challenge contributes to sustainable development goal 8 "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all".

Policies:

As an employer, ESI Group strives to:

- manage its staff in connection with business growth;
- offer its employees the benefit of flexible schedule management;
- measure the impact of days of absence on the employment of the staff so as to make the necessary corrections to our procedures, working conditions and internal safety procedures;
- improve conditions at work for a direct impact on the well-being, effectiveness and motivation of employees;
- establish a positive employer-employee dialogue.

Outcomes:

Data related to headcount is calculated on the number of employees as of January 31, 2019.

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, 2019, the ESI Group workforce consisted of 1,232 employees, compared to 1,238 at January 31, 2018, and included eight employees from acquisitions over the period. The average headcount in 2018 was 1,222 employees, very slight increase compared to 2017 (1,201)

The percentage of the Group's workforce on permanent contracts was 92%. Limited employment contracts such as internships, apprenticeships and short-term contracts accounted for 8% of the total workforce compared to 7% in 2017. In 2018, ESI pursued its ambition to control its workforce in line with activity growth.

EMPLOYEE TURNOVER

Recruitments	2016	2017	2018
EUROPE, MIDDLE EAST AND AFRICA	120	144	107
Apprenticeship/internship	29	28	25
Temporary contracts	25	24	25
Permanent contracts	66	92	57
AMERICAS	32 (1)	17	17
Apprenticeship/internship	9	6	6
Temporary contracts	1		
Permanent contracts	22 (1)	11	11
ASIA-PACIFIC	45	48	53
Apprenticeship/internship	5	12	13
Temporary contracts	10	3	11
Permanent contracts	30	33	29
GRAND TOTAL	**197 (1)**	**209**	**177**

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

Departures	2016	2017	2018
EUROPE, MIDDLE EAST AND AFRICA	82	112	101
Apprenticeship/internship	29	30	28
Temporary contracts	9	10	13
Permanent contracts	44	72	60
AMERICAS	24	22	23
Apprenticeship/internship	8	10	5
Temporary contracts		1	
Permanent contracts	16	11	18
ASIA-PACIFIC	37	33	48
Apprenticeship/internship		2	3
Temporary contracts	7	6	10
Permanent contracts	30	25	35
GRAND TOTAL	**143**	**167**	**172**

In 2018, ESI Group hired 97 employees on permanent contracts, or 54.8% of recruitments.

The departure rate of permanent employees in 2018 was 10% [(number of permanent contract departures/total headcount in permanent contract) x 100] compared to 9.4% in 2017.

The 2018 turnover rate in permanent contracts was 9.6% [(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 remains stable compared to 2017.

Work schedules

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.

In 2018, 5.4% 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.

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).

BREAKDOWN OF ABSENTEEISM *(in % of total days worked)*

Illness (< 20 days)	29%
Long term illness (> 20 days)	16%
Maternity leave	19%
Paternity leave	5%
Parental leave	25%
Workplace accident	2%
Others	4%
TOTAL	**100%**

The absenteeism rate is stable in France at 2.39% in 2018 compared to 2.37% in 2017.

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 one in Vietnam and one in Brazil.

These employee representatives involved 26 employees who actively participated to meetings in 2018.

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.

Well-being at work

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.

South Korea, for example, also offers training on the theme of happiness and work-life balance. One of our German subsidiaries supports its employees in parenthood by offering them aids for the children's nursery.

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.

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. These challenges are in line with United Nations goals 5 and 10: "Achieve gender equality and empower all women and girls" and "Reduce inequality within and among countries".

Policies:

In order to promote diversity and reduce inequalities within the Group, ESI applies to:

- promote diversity and multicultural exchanges;
- increase the rate of feminization of permanent contracts;
- be compliant with laws promoting hiring and retaining people regardless of age;
- be compliant 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;
- not tolerate any form of sexual, physical or moral harassment, coercion or bullying.

Outcomes:

The tables below present a breakdown of employees by region and by country:

EMPLOYEE DISTRIBUTION BY REGION

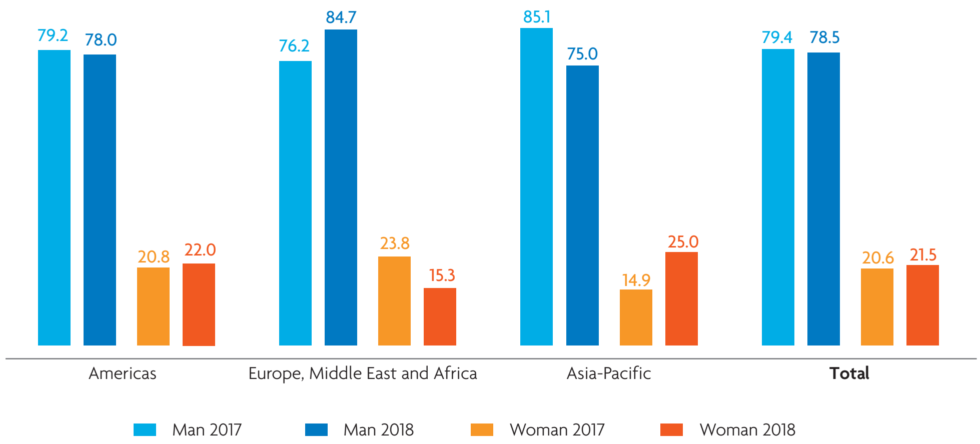
	2017	2018
Europe, Middle East and Africa	56.9%	57.1%
Asia-Pacific	32.6%	33.0%
Americas	10.5%	10.0%

Note: Among the 57.1% of employees located in the Europe, Middle East and Africa region, 53.8% are located in Europe.

EMPLOYEE DISTRIBUTION IN THE MAIN COUNTRIES

	2017	2018
France	25.7%	26.1%
India	19.9%	20.1%
Germany	16.6%	15.7%
United-States	9.9%	9.2%
Japan	6.1%	6.2%
Others	21.8%	22.6%

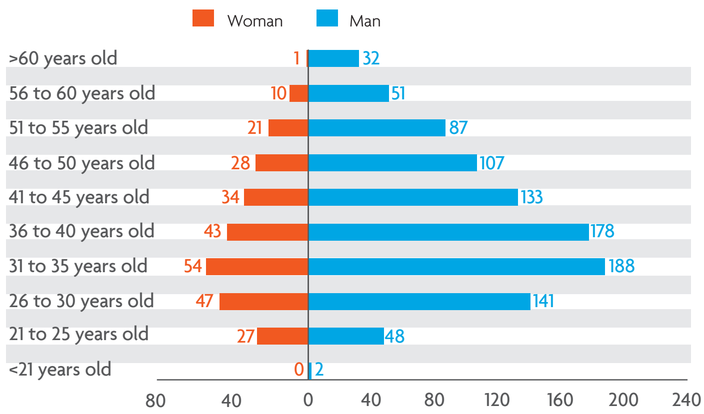
GENDER BREAKDOWN



The percentage of women among permanent employees was 19.8%, 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 2018, 47 women joined the Group, which represents 33% of total new recruits, higher compared to 2017 (27%).

WORKFORCE BREAKDOWN BY AGE



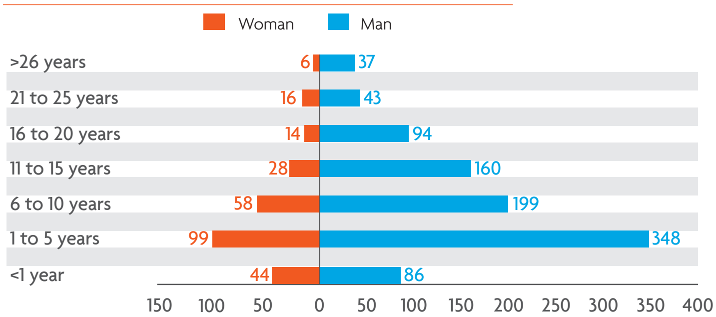
The average age of employees is 39.3 (female employees: 37.4 and male employees: 39.9).

ESI Group is compliant with laws promoting hiring and retaining people regardless of age. As such, 17.69% of employees are aged 50 or more, *i.e.* 218 people worldwide (184 men and 34 women).

Of those aged 50 and older, 67% are located in Europe, compared to 18.8% in Americas and 14.2% in Asia.

In addition, 36.7% of Group employees are under 35, which contributes to youth employment overall. In 2019, 78.2% of employees hired were under 35.

WORKFORCE BREAKDOWN BY LENGTH OF SERVICE



The average length of service in the Group is 8.2 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 11.2 years.

Principles of non-discrimination

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 15.54% are women, a slight increase compared to 2016 (14.2%).

The Ethics Committee (composed of two women and one man) also ensures that none of the above discrimination is made within the Group (see 3.4.4).

In addition, in 2018, the Group raised awareness of intercultural issues among 87 people. These awareness sessions were held in small groups in virtual classroom format. Employees from different countries of the Group were able to discuss about cultural differences and intercultural communication.

Inclusion of employees with a disability

Since the beginning of 2016 the Group works with Elise at its Lyon site in France and since 2017 with Cèdre at its Rungis site, for the selective sorting. These two companies aim to create permanent jobs for people with disabilities.

Ensure the development of collaborators' competencies

Human resources are ESI's greatest source of value and are in line with the two following sustainable development goals: "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all" and "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all". 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.

Policies:

In this way, ESI Group applies to:

- ensure the onboarding of new hires;
- enhance annual feedback by promoting data exchange to collect information as training needs and development plans and to facilitate the construction of appropriate local and/or global training plans that meet the needs of a changing business;
- implement training programs to allow employees to learn more about the portfolio of solutions available and to boost their managerial and professional skills (techniques, sales, etc.);
- develop partnership agreements with universities and engineering schools to play an active role in the training of young people;
- promote the spread of information to all the Group employees.

Outcomes:

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 was launched: The Welcome Days. Two sessions were held in 2018, one for newcomers from France and Germany and the other for newcomers from all EMEA offices. For 2019, the deployment of the "Welcome Days" is planned for Asia and the United States. 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 computerization of annual reviews was implemented for the entire Group in 2018. In 2018, 93% of employees achieved a performance review on the new online tool.

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 2018, 549 employees, or 44.6% of the workforce, received trainings, at a cost to the Company of €505,000.

In total for 2018, 10,377 training hours were provided, or an average of 18.9 hours of training per employee trained.

A key priority on the leadership skill has been identified by the top management in 2017 and was pursued in 2018. During 2018, five sessions were held, 31 people were trained in total.

In terms of technical skills, the Group has set up a partnership with the e-learning platform Pluralsight where 190 employees can be trained all year round on several hundred different subjects.

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.

Following the successful partnership set up between ESI, EC Nantes and a Japan partner in 2017, these international student exchanges are being prosecuted which strengthen the links between the academic ecosystem and ESI projects. This kind of partnership, supported by its Scientific Department, is still illustrated by the implementation since September 2018, the ESI Chair in the ENSAM, and by a new contract signed with the University of Zaragoza for five years on Augmented Reality and Model Reduction. On these themes, a post-doctoral student from Zaragoza is currently on a mission in Seattle, at the University of Washington.

Always supported by our Scientific Department, 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.

Additionally, the Group is very involved in working with young graduated and integrated 44 students in 2018 (42 interns and two apprentices).

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. In 2019, a new discussion group will be implemented during the first semester, around environmental issues. Each employee is invited to share the eco-responsible actions carried out in their professional and/or personal environment.

Multiple communication initiatives are available to strengthen information sharing and cohesion within the Group, such as global presentations, monthly newsletters, Flash Corporate News, Flash Quality News, Flash HR News and corporate or product webinars.

Q&A (Questions & Answers) sessions were also initiated in 2018 to enable a more fluid and transparent exchange between management and employees.

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.

Ensure health and safety in the workplace and guarantee the provision of social benefits to employees

The Group's approach is also implementing benefits package for our employees around the world, in particular by ensuring the employees' health on a daily basis. This contributes to the following two objectives: "Ensure healthy lives and promote well-being for all at all ages" and "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all".

Policies:

Since health and safety of employees in the workplace and employee benefits are necessary for the smooth running of activities, ESI has set itself the objective of:

- provide high-quality welfare coverage for all its employees throughout the world;
- offer an attractive compensation and benefits package.

Outcomes

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.

13 countries out of 19 offer their employees to finance a local healthcare insurance in compliance with regulations and employee's well-being. Some countries, such as India, now offer a medical check-up once a year to their employees and, Tunisia has offered five sick leave days since February 2017. Since October 2018, one of our subsidiaries in Germany has also been offering access to a company restaurant to enable its employees to eat in a balanced way.

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, 2019, the FCPE owned 29,500 Company shares, 0.49% of the capital.

3.4.2. 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.

Develop innovative and high-quality 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?

The products developed by ESI Group are used to bring to market innovative products at a lower cost and with greater reliability and contributes through this section to the sustainable development goal 9 of the United Nations :"Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation".

Policies:

In its approach, ESI strives to:

- meet its customers' demand for ever more innovative products;
- engage itself in a process of zero physical test, zero physical prototype, zero interruption of production;
- guarantee the quality of its products and services and ensure client satisfaction;
- acquire a full global certification by 2021.

Outcomes:

Innovative solutions to the zero-physical test, zero physical prototype, zero interruption of production

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.

Virtual Prototyping makes it possible to prepare physical tests under the best conditions, going as far as pre-certification or eliminating the need to carry out physical tests until final validation.

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, connected and operationally assisted in its digital version.

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, Fiat Chrysler and Volkswagen in the automotive industry, or Boeing and Airbus in the aeronautic industry or EDF and Framatome in the energy 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.

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.

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. 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.

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. ESI Group's objective is to have full global certification by 2021. 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.

In 2018, the global certification applied to 95% of the workforce.

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, ESI Hispania, ESI ITI in Germany and ESI UK.

2018 also proved to be very successful with the integration of two new entities: ESI Open CFD (in United-Kingdom) and ESI Nordics AB (in Sweden), 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.

In addition, since their creation in 2018, the "Welcome Days" have included a session on Quality in the agenda in order to understand the meaning of evolving under a Quality Management System and the approach to process improvement.

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.

Select and maintain trusting relationships with committed partners

By developping the partnership ecosystem that respects the Group's values its commitments, ESI contributes to the sustainable development goal 12 "Ensure sustainable consumption and production patterns". 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.

Policies:

Develop a partnership ecosystem that respects the Group's values and commitments.

Outcomes:

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 influencing 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.

The Company now includes an environmental criterion (energy consumption for operation, local purchasing, possibility of recycling the product, etc.) in the purchasing procedure of its suppliers and subcontractors. Training on responsible purchasing have been planned for the most important buyers. To date, one person has completed this training.

ESI Group also takes care not to create a situation of dependence on suppliers and subcontractors.

3.4.3. 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.

The main environmental challenges identified by the Group are:

- to reduce energy consumption in its buildings and data centers;
- to limit emissions of greenhouse gases associated with travel by Group employees;
- to limit the impact related to waste electrical and electronic equipment (WEEE).

Scope adopted: France, Germany, Czech Republic, Japan, United States, Tunisia, India, Switzerland, China, Spain, United-Kingdom, South Korea, Italy and Brazil.

Ensure a more sustainable consumption and production

ESI Group believes that environmental responsibility should be a priority for all companies, and strives to reduce its environmental impact and to manage its resources in a more sustainable way and contributes to the sustainable development goal 12 "Ensure sustainable consumption and production patterns".

Policies:

The main environmental issues in which ESI is involved are:

- limiting energy consumption;
- limiting paper consumption and transitioning to the use of recycled paper;
- limiting water consumption;
- develop a waste recycling process all over the sites;
- constantly raise its employees' awareness of measures taken to avoid wasting energy, and thereby to reduce its environmental impact.

Outcomes:

Energy consumption

In 2018, electricity consumption on the Rungis site totaled 463,561 kWh, an average of 3,287.7 kWh per employee, a decrease of 27%, partly due to the move in the new HQE certified building during summer 18. 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 (+24.24% in 2017 and +10.45% in 2018). These successive increases are due to the increasing use of the servers. The energy consumption in the Group's headquarters, located in Paris, has slightly increased by 1.73% (due to technical issues and heat inside the building). 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 2,161.2 kWh for the sites in Germany, the Czech Republic, India, Tunisia, Spain, Japan and China, representing a slight decrease of 16.20% compared to 2017. 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.

Within the 2018 reporting scope, ESI Group uses renewable energy production at its Swiss site, where hydropower is used for electricity and thermic energy for heat. 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. In Japan, the lights automatically turn off after a while.

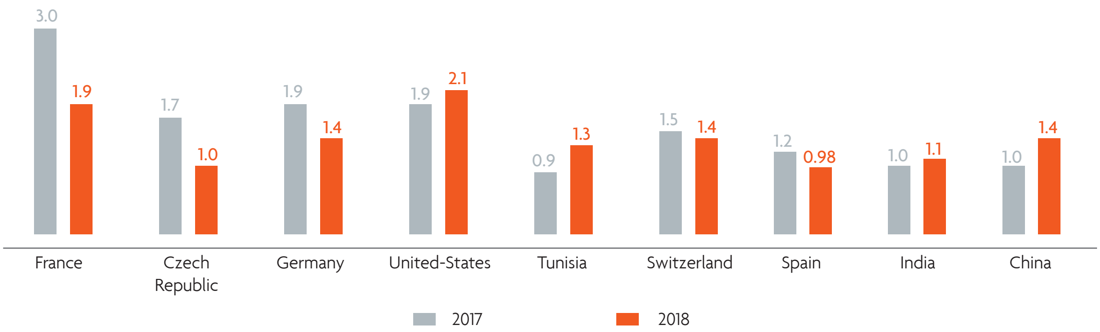
Furthermore, an energy audit has been realized in 2017 on the three German sites of the Group, in Neu-Isenburg, Stuttgart and Dresden. The result shows that the sites are good energy quality.

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 and South Korea), average paper consumption in 2018 was a little higher and stable with about 2.0 reams of paper used per employee. The paper consumption is higher in France but reduced by 35.1% in 2018. Nearly 67% of the countries included in the scope have automatically set up black and white and single-sided printing. Japan made 100% of its prints with recycled paper, followed by Spain on 50% of its prints and China on 30%.

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 2018 using the Loopline Systems tool.

ESI also offers its employees in France the possibility to create a safe on Digiposte to dematerialize HR documents such as pay slips.

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 Company's business is not very water-intensive as it does 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, for the Rungis site in France, ESI Mecas in the Czech Republic, the two sites in India, the UK site, the Spanish site, the Chinese site and South Korea, the average water consumption was of 4.0 cubic meters per employee. In 2017, the average consumption was of 5.3 cubic meters per employee (on a smaller scope: Rungis, Czech Republic, ESI GmbH in Germany, India and China).

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 2018, 126 kg of waste were recovered by Cèdre in the French site of Rungis, in which 90 kg of paper, against 696 kg in 2017, 81.9% less waste.

At the Lyon site, ESI collaborates with Elise, a waste collection and recycling company that provides stable employment for people with integration difficulties, particularly those with disabilities. In 2018, Elise recovered 1,029 kg of waste, including 931 kg of paper. Recycling this waste saved 21,600 litres of water, 5,934 kWh of energy and 18 trees.

The Aix-en-Provence site, 60 kg of paper was recycled by Recy'go, generating a saving of 17 kg of CO_2.

All the German, American, Czech, Japanese, Spanish, Italian 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. In Spain, an instruction explains where obsolete electronic equipment must be taken in order to be recycled. 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.

Raising employee awareness

During summer 2018, ESI produced a short video clip for all employees on simple ecofriendly actions to adopt at work (https://www.youtube.com/watch?v=nUIdRRLDgRk). In 2019, a new discussion group will be implemented during the first semester, around environmental issues. Each employee is invited to share the eco-responsible actions carried out in their professional and/or personal environment.

Reduce its greenhouse emission

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. ESI Group's actions meet the sustainable development goal 13 "Take urgent action to combat climate change and its impacts".

Policies:

In order to reduce its carbon footprint, ESI Group is committed to a process of:

- limit emissions resulting from business travel by train and by plane;
- limit CO_2 emissions from company car travel;
- develop the use of web conferencing tools.

Outcomes:

To limit travels, the Group updated its travel policy. This policy is global in scope and adapts to local specificities. 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, but should be extended to all ESI sites. During the first quarter of 2019, a new tool was implemented to centralize travel requests and employee expenses throughout the Group. This tool will facilitate administrative procedures and, above all, will allow a better monitoring of travel across the whole ESI Group.

In 2018, emissions resulting from business travel by French, American and German employees by train and by air totaled 1,975.8 kg per employee, an increase of 17% compared 2017. 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. It should be noted that four 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 2018, 42 employees in France had a company car, 55 in Germany, 33 in the Czech Republic, five in Spain, five in Italy and two in Switzerland. In Japan, India and China, only one person had a company car. There were no company cars in the United States, in Tunisia or Brazil in 2018. 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 155,021 kg or 3,691 kg per company car, a 10.6% decrease compared to last year.

Overall, business travel by French employees generated 493.7 tons of CO_2 in 2018, a decrease of 14.3% per employee.

As for company cars in the Czech Republic, the estimated emissions in 2018 were 105 tons of CO_2, an average of 3,182 kg per car, a slightly increase of 5% compared to 2017.

Lastly, for Germany, estimated emissions related to train and plane are amounted to 188 tons of CO_2 (two entities out of three), a decrease of 21% compared to 2017. Consumption related to cars is amounted to 1,857 kg of CO_2 per car, an increase of 27% linked to an increase of vehicles. In total, the German employees consumption, which is amounted to 446 tons, has been stable compared to 2017.

Among the measures implemented over the past few years, the adoption of Gelato in the beginning of 2018 helps to avoid 925,712 km, a diminution of 65% of the past shipping distance for the delivery of our documents.

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 2018, an average of 144 audio meetings, lasting about 41.6 minutes on average (24% more than in 2017), were organized within the Group per day using Skype for Business.

3.4.4. Serving civil society

Partnerships are an integral part of the Group's strategy to facilitate and promote Virtual Prototyping while acting sustainably (see 3.2.2.4).

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 26.4% of its revenues in R&D in 2018.

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.

Develop solutions that contributes to reducing the environmental footprint

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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. ESI Group contributes to through this challenge to the sustainable development goal 9 of the United Nations "Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation".

Policies:

ESI is committed through its solutions to helping its customers to:

- reduce time-to-market;
- reduce total product weight;
- reduce waste associated with prototyping and manufacturing;
- improve useful life of products;
- reduce the environmental footprint of products;
- improve the safety of the products.

Outcomes:

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 ProCAST, Nissin Kogyo, who develops, manufactures, and sells brake equipment for two- and four-wheeled, could successfully cast complex shapes after an analysis using precise finite element technology. All possible defects were predicted with the highest accuracy. By introducing ESI ProCAST on a full-scale basis, Nissin Kogyo reduced their development time and trial production, allowing them to reach the market faster;
- 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.

  Likewise, the use of Virtual Performance Solution by ESI experts helps to design lighter vehicles to help vehicle manufacturers in their weight reduction challenge. This challenge is even more present today with the acceleration towards the electric vehicle, whose weight, and particularly the weight of the battery, becomes a central issue;
- Reduced waste associated with prototyping and manufacturing: Students from the Czech Technical University in Prague (ČVUT), Czech Republic, were able to avoid physical crash tests of their race car thanks to ESI Virtual Performance Solution (VPS), using only virtual tests of the material to validate the model. This enabled them to move swiftly to the design optimization of the crash absorber structure. The capability of VPS to complete multiple simulations on a single core model allowed the team to thoroughly examine various measurements. The End to End solution supported the project goals, which were met entirely within the allotted time and budget;
- 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: Thanks to ESI PAM-STAMP solution, Kirchhoff Automotive was able to integrate ultra-high strength steel, which caused a springback issue, into the conception and forming process of its components more quickly. This new material offers a lightweight option to traditional steels and can thereby contribute to reduced CO_2 emissions.

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™ concept of the Group targets product predictive performance and maintenance, to optimize repairs, facilitate certification update, and minimize recalls.

Act ethically and responsibly

The Ethics Charter applied across the Group is in line with the principles of sustainable development objective 16 "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

A three-member 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.

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 has been communicated 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".

Regarding the European Union data protection regulations, which are supervised in France by the CNIL *(Commission nationale Informatique et Libertés)*, ESI Group, as a French company, must comply with them.

Within ESI, we launched the GDPR project in 2016 with a raising awareness approach at Company level in France and at local level in Germany. A specific working group has been created to manage the entire project and coordinate local initiatives. Several working groups have been created for functions that are particularly affected by these regulations, either because of their use of our employees' personal data or because of the customers, suppliers, investors and partners' data of ESI Group.

The Ethics Charter contains the policies and procedures inherent in the following business conduct:

- Relations with our business partners:
  - establish transparent and loyal business dealings with clients,
  - deal honestly and fairly with all clients no matter the size of their company,
  - provide quality products and services that meet the needs of its customers;
- Actions taken to prevent corruption:
  - prohibition of 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,
  - 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,
  - prohibition to receive, give, promise or solicitate facilitation payments or influence-peddling undue benefits with a view to granting, obtaining or maintaining a contract or any other advantage;
- Fraud and money laundering:
  - comply with laws on fraud and money laundering,
  - conduct business only with reputable partners,
  - be vigilant regarding any payments made, in order to detect any irregularities, especially concerning partners whose business conduct may raise suspicion,
  - ensure that the accounting and tax declarations sent to the authorities are complete and reflect the reality of each subsidiary;
- Compliance with antitrust laws:
  - prohibition of 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,
  - prohibition of 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.

Regarding the European Union data protection regulations, which are supervised in France by the CNIL *(Commission nationale Informatique et Libertés)*, ESI Group, as a French company, must comply with them.

Within ESI, we launched the GDPR project in 2016 with a raising awareness approach at Company level in France and at local level in Germany. These measures include:

- the creation of a specific working group to manage the entire project and coordinate local initiatives;
- the creation of several working groups for the functions that are particularly affected by these regulations, either because of their use of our employees' personal data or because of our customers, suppliers, investors and partners' data;
- the implementation of a dedicated section on the Group's intranet to share all relevant information. The information on current regulations, past webinars and the strategy applied to each function (Marketing and Sales, Human Resources, IT, Legal, etc.) are available in this section.

Develop partnerships with the academic and scientific communities

By developing partnerships with the various digital players, ESI Group is once again contributing to the following sustainable development objectives "Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation" and "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all".

ESI Group is convinced that it is by investing with various players in the digital community that the Group will strengthen its position as a leading player in digital transformation and leader in virtual engineering.

The Company is an active member 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 400 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.

Policies:

In order to facilitate collaboration and encourage industrial innovation, the Group makes sure to create and maintain quality relationships with various players in the digital community, at the industrial, academic and associative levels.

Outcomes:

ESI Group participates in several competitiveness clusters, principally in France. These clusters provide the proximity needed for collaborative work with major industrial players and research and development organizations in order to bring highly innovative products to market. Located all over France, these organizations are as follows: Aerospace Valley (Toulouse), ASTech Paris Région (Île-de-France), Nuclear Valley (Burgundy), Mov'eo (Normandy and Île-de-France), I-Trans (Nord-Pas-de-Calais and Picardy), iD4CAR (Brittany and Pays-de-la-Loire), Systematic (Île-de-France), Minalogic (Grenoble and Rhône-Alpes), Pôle Pégase (Provence-Alpes-Côte d'Azur) and Pôle ViaMeca (Auvergne-Rhône-Alpes). Since 2013, ESI Group has had a presence on the campus and the Board of Directors of Ter@tec, Europe's largest intensive computing center, based 20 km outside Paris at the Saclay platform in Île-de-France, alongside the CEA (the atomic and alternative energy commission), a major player in research, development and innovation. Today, ESI Group is involved in several collaborative projects 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 Île-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.

Through this presidency, ESI Group contributed to the development of the strategic plan for the automotive industry. These plans are developed at the initiative of the CNI so that each CSF (strategic committee of the sector) develops its own transformation plan towards the industry of the future in general and particularly digitalization, by involving the entire value chain contributing to the sector.

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.

ESI Group is also an active member of the Nuclear Valley cluster. Nuclear Valley helps to restore the competitiveness of the nuclear industry on the international market by providing its expertise in virtual reality to facilitate the replacement of existing equipment or its maintenance.

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.

At the international level, ESI Group is involved in promoting French know-how in the technological field of the Industry of the Future. In 2018, its actions took place in the Russian industrial ecosystem with the setting up of bilateral meetings. It is also as part of this commitment that ESI Group participated to the SPIEF 2018 (Saint-Petersburg International Economic Forum) where France and President Macron were Honorary Guests. ESI took part in the official round table on the Industry of the Future, being the only French mid-cap company present at this debate.

3.5. Report of the inspecting organization

Year ending January 31, 2018

This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the shareholders,

Following the request received from ESI Group (referred to hereinafter as "the entity") and in our capacity as an independent third-party body with an accreditation granted by the COFRAC under registration n° 3-1081 (available on www.cofrac.fr), we hereby present our report on the consolidated statement on non-financial performance for the year ending January 31, 2018 (referred to hereinafter as the "Statement"), presented in the Group's management report in accordance with the statutory and regulatory provisions of Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Code of Commerce.

Entity's duty

The Board of Directors has a duty to draw up a Statement that complies with statutory and regulatory provisions, including a presentation of the business model, a description of the main non-financial risks, a presentation of the policies applied in view of these risks together with the results of those policies, including key performance indicators.

The Statement has been drawn up according to the authoritative accounting pronouncements used, (referred to hereinafter as the "Pronouncements") by the entity whose significant elements available upon request from the Company's head office.

Independence and quality control

Our independence is defined in the provisions of L. 822-11-3 of the French Code of Commerce and the profession's Code of Conduct. Moreover, we have set up a quality control system that includes documented policies and procedures aiming to ensure that rules of conduct, professional ethics and the applicable statutory and regulatory provisions are complied with.

Duty of the independent third-party body

We have a duty, on the basis of our work, to formulate a reasoned opinion expressing a conclusion of a moderate level of assurance as to:

- the Statement's compliance with the provisions set out in Article R. 225-105 of the French Code of Commerce;
- the sincerity of the information furnished in application of 3° of I and of II of Article R. 225-105 of the French Code of Commerce, namely the results of the policies, including key performance indicators and actions relating to the main risks, referred to hereinafter as the "Information".

However, we have no duty to give an opinion on:

- whether the entity has complied with other applicable statutory and regulatory provisions, including, matters relating to the vigilance plan and the fight against corruption and tax evasion;
- compliance of products and services with applicable regulations.

Nature and scope of the work

We carried out the work in accordance with standards that apply in France and that determine the ways in which the independent third-party body carries out its mission, and with international standard ISAE 3000.

We carried out our work between May 2, 2019 May 21, 2019 for a period of approximately eight days/person.

We held two interviews with people in charge of the Statement.

We carried out the work enabling us to evaluate the extent to which the Statement complies with the regulatory provisions and the sincerity of the Information:

- we informed ourselves of the activity of all of the companies falling within the scope of the consolidation, of the exposure to the main corporate and environmental risks linked to this activity, and of its effects on human rights and the fight against corruption and tax evasion together with the policies that ensue and their results;
- we looked into the appropriateness of the Pronouncements with a view to their relevance, exhaustiveness, reliability, neutrality and comprehensive nature, taking into account, where necessary, the sector's good practices;
- we checked that the Statement covered each category of information provided under III of Article L. 225-102-1 on corporate and environmental matters and whether human rights were being complied with and the fight against corruption and tax evasion;
- we checked that the Statement presents the business model and the main risks linked to the activity of all of the companies falling within the scope of the consolidation, including, where relevant and proportionate, the risks created by business relations, products or services as well as policies, actions and results along with key performance indicators;

- we checked, where relevant in view of the main risks or policies presented, that the Statement presents information set out in II of Article R. 225-105;
- we looked into the selection and validation process of the main risks;
- we enquired about the existence of internal verification and risk management procedures set up by the entity;
- we looked into the coherence of results and of key performance indicators used in view of the main risks and policies presented;
- we checked that the Statement covers the consolidated scope, namely all of the companies falling within the scope of consolidation in accordance with Article L. 233-16 with the limits set out in the paragraph 3.1 'The methodology' and 3.4.3 'Being an environmentally friendly player';
- we studied the information-gathering process set up by the entity aiming to obtain information that is exhaustive and sincere;
- with regard to key performance indicators and other quantitative results that we consider to be the most important, we implemented:
- analytical procedures consisting of checks to ensure that the data collected was consolidated correctly and that its evolution was coherent;
- detailed tests on the basis of surveys, consisting of checks to ensure definition and procedures were applied correctly and of checks linking data to supporting documentation. This work was carried out with a selection of contributing entities[1] and covered between 10% and 100% of the consolidated data of the key performance indicators and results selected for these tests[2];
- we consulted documentary sources and held interviews to corroborate what we considered to be the most important qualitative information (actions and results);
- we looked into the overall coherence of the Statement with reference to our knowledge of the companies as a whole falling within in the scope of the consolidation.

We consider that the work carried out and, exercising our professional judgment, enables us to formulate a conclusion of a moderate level of assurance; a higher level of assurance would have required more extensive verification work.

In view of the fact that sampling techniques were used and that there are other limits inherent to the functioning of any system of information and internal control, we cannot rule out totally the risk that a significative anomaly in the Statement has not been detected.

Conclusion

On the basis of our work, we did not note any significant anomaly of such a nature as to cast any doubt on the fact that the statement of non-financial performance complies with the applicable regulatory provisions and that that Information, as a whole, has been presented with sincerity, in accordance with the Pronouncements.

Lyon, on May 22, 2019

FINEXFI

Isabelle Lhoste

Partner

(1) Social indicators: ESI Group.
Environmental indicators: ESI site in Rungis, Lyon, Tunisia and United-Kingdom.

(2) Ensure a decent work, Promote diversity and multicultural exchanges, Actions towards apprenticeship, Internal communication, Ensure a more sustainable consumption and production, Reduce its greenhouse emissions.

4 MANAGEMENT REPORT

Financial year 2018 (ended January 31, 2019)

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, 2019. This report accounts for the Company's activities during the 2018 financial year (ended January 31, 2019), including the result of these activities and the Company's outlook, and presents the Company's accounts and balance sheets for the financial 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 2018 financial year

4.1.1. Highlights of the 2018 financial year

Financial information

As anticipated, ESI Group has returned to the path of growth in 2018, as part of its ongoing business and operational transformation.

Evolution of the financing

As part of its financing policy, ESI Group announced the signature of a €40 million syndicated credit line, taken out with a consortium of leading European banks. This credit line will be used to fund the acceleration of the Group's development plan and diversify its financial partners. It replaces the syndicated credit line signed in 2015.

The banking consortium is made up of the following seven members:

- Arranger and Agent: Banque Palatine;
- Participants: Banque Palatine, HSBC France, Crédit Agricole Île-de-France, CIC Paris, Crédit du Nord, Société Générale, BNP Paribas.

Evolution of Group Governance

After announcing the nomination within the Group Executive Committee of Christian Matzen, EVP Solutions, Sales & Marketing and Dominique Lefebvre, Product Operations Director, as well as the recruitment of Olfa Zorgati as Chief Financial Officer, the Group announced the nomination of Cristel de Rouvray as Chief Executive Officer, Alain de Rouvray remaining Chairman of the Board of Directors.

2018, an ongoing transformation

A technological and digital revolution is transforming industry worldwide, opening countless new possibilities for design, manufacturing and asset management, straining the traditional ways of evaluating performance that still heavily rely on real (hardware) tests and prototypes. Companies have no choice but to digitize their product development and performance evaluation, not only for pre-certification but increasingly for the asset in-Service. This is the most critical facet of the digitization of industry (Industry 4.0, Smart Factory).

Standing on more than five decades of pioneer experience in virtual prototyping and sustained investments in advanced technologies, ESI Group is well positioned to enable this major disruptive change among OEMs, their suppliers and the owners of fleets of industrial assets – whether incumbents or new players. ESI has a unique technology stack and credibility to become the Product Performance Lifecycle™ (PPL) Company. Anchored on the concept of the Hybrid Twin™, our technologies bring the ability to evaluate the outcome at any stage in the asset's life, new or used and integrated in its operational environment. A new frontier is created in simulation that combines sophisticated causal models from virtual prototyping with guidance on what sensor data to collect and process so as to be able to track performance practically in real time and unlock the benefits of evaluating the ageing of the product from the conception stage and reduced down time.

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)	2018	2017	Variation at actual currency rate	Variation at constant currency rate
Total sales	139.4	**135.3**	**3.1%**	**3.9%**
Licenses	109.8	105.7	3.9%	4.8%
Services	29.6	29.5	0.2%	0.8%
Gross margin	101.5	**97.8**	**3.8%**	**4.6%**
% of sales	*72.8%*	*72.3%*		
EBITDA	11.2	**12.1**	**(7.8%)**	**(13.8%)**
% of sales	*8.0%*	*9.0%*		
Current operating profit[(1)]	6.8	**9.2**	**(16.5%)**	**(26.0%)**
% of sales	*4.9%*	*6.8%*		
EBIT	7.0	**8.1**	**(13.2%)**	**(22.7%)**
% of sales	*5.0%*	*6.0%*		
Net profit (Group share)	3.3	**2.4**	**40.4%**	**19.9%**
% of sales	*2.4%*	*1.8%*		

(1) Current operating profit including amortization of assets acquired in business combinations.

4.1.2.1.2. General information

Results confirming the trust of industrial global leaders

Sales came to €139.4 million (+3.1%; +3.9% at constant exchange rate (CER)), bolstered by renewed momentum in the Licensing business (79% of revenues to €109.8 million, up +3.9%; +4.6% CER). Services (Consulting) remained stable at €29.6 million (+0.2%; +0.8% CER), for a 21% share of total revenue.

The progress is the result of a good performance on key accounts and the launching of strategic initiatives such as in light weight engineering and immersive human centric engineering. Building on a strongly established and growing solid installed base, this promises a significant growth potential for the Group.

Notably, the twenty largest global customers account for 45% of total order intake and increased by 12% in average. This roster includes some of our strategic partners and the world's industrial leaders (particularly in the Automotive, Aeronautics and Energy sectors), which are well along in the digital transformation of their business models. ESI's business average growth with these customers is double-digit growth rates and as much as twice the PLM market average. These leaders of the Industry 4.0 and Smart Factory have welcomed ESI Group's physics based Virtual Prototyping solutions and their further development perspective of performance in-service.

Strengthening Financial structure

In the context of the moderate average growth over the period, the current transformation and increased long-term investments weigh, as anticipated, on the Group's results and profitability for the 2018 year. Individually, the Group's core business shows a good level of profitability, while the innovation activity, that contributes to positioning the Group for the future, carries by construction lower profitability in the early years.

Improvement of the gross margin

ESI Group's gross margin increased by +3.8% to €101.5 million, representing 72.8% of revenues (*vs.* 72.3% in 2017). This progression is due to an improved gross profit margin for Licensing of 85.2% (*vs.* 84.7%) and a greater increase in the Licensing business compared to the Services.

Increased investments

The operational optimization associated with the Group's transformation has differing impacts on two main expense items. In 2018, the Group increased:

- R&D investments, which came to €36.8 million (33.5% of licensing revenue), up €1.9 million, in consequence of integrating technologies and adapting the offer. Considering ESI Group's Research Tax Credit and capitalization of development costs, R&D expenditures recorded in the Profit & Loss Statement were lower, at €31.7 million, an +8.2% growth;
- Sales and Marketing (S&M) expenses, which came to €43.0 million (30.9% of revenues), up €1.1 million as part of a sales structuring focused on developing and targeting around accounts and strategic initiatives.

Slight decrease in operating profitability

EBITDA amounted to €11.2 million (*vs.* €12.1 million in financial year 2017), for a margin of 8.0% of total revenues (*vs.* 9.0%), before considering the depreciation and amortization associated with major amortization of investments, which bring the Group's operating income to €7.0 million (5.0% of revenues) compared to €8.1 million in financial year 2017 (6.0% of revenues).

4.1.2.2. Financial position – consolidated balance sheet

As at January 31, 2019, The Group's cash position was €18.1 million (*vs.* €15.8 million at January 31, 2018).

Financial debt amounts to €45.1 million (*vs.* €47.6 million). The Group's net debt stood at €27.0 million (*vs.* €31.8 million at the end of January 2018, and €37.3 million at the end of January 2017). Gearing (net debt to equity) improved and is now 25.5% (*vs.* 31.4% at the end of January 2018 and 37.6% at the end of January 2017).

As part of its financing policy, the Group secured a €40 million syndicated credit line from a consortium of leading European banks, replacing the 2015 agreement.

At January 31, 2019, ESI Group held 6.5% of its share capital in treasury shares.

Equity stood at €105.6 million, up due to the net profit for the year.

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. 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, 2019 amounted to €18.1 million compared with €15.7 at January 31, 2018. The €+2.4 million increase over financial year 2018 can be explained by the flows listed below.

Operating cash flow came to €6.0 million compared to €4.7 million for the previous financial year. This change of €+1.3 million is mainly due to the decrease in taxes paid during the year, generating a positive cash impact of €1.7 million, partially offset by the decrease in EBITDA.

Variation in working capital requirement (WCR) amounts to €+4.1 million, which is a decrease of €3.3 million compared to previous year-end. The change in WCR was particularly high in 2017, following an intense recovery campaign at the end of the financial year. The additional improvement recorded at January 31, 2019 results from temporary payment delays associated to other receivables and payables.

Current capital expenditures paid by the Company amount to €4.2 million, compared to €3.6 million for previous financial year. ESI has made investments in new office in Paris area (in Rungis).

The other financing and investing operations represented a net outflow of €3.5 million, mainly corresponding to the repayment of €5 million of a revolving credit line and the refinancing of the costs of move of Rungis office for €1.6 million. In addition, the long-term part of the syndicated credit remained stable at €30 million, as the signing of the contract enabled to re-obtain the €4.5 million installment initially paid in November 2018.

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 €36.8 million in 2018, an increase of 5.4% 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 €+2.7 million impact on the income statement in 2018 (vs €+3.2 million 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

Not only the Product Operations teams but also Discovery and Innovation teams in charge of R&D deliver 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 Tools);
- 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 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 teams allot 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, to accelerate adoption of these products in industrial applications;
- investments are made in innovative products by increasing research contracts with leading customers 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 teams follow 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 teams continue 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 support 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 Products 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 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 publishing contracts held 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 if 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, the Company owns patents directly or through its subsidiaries.

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 consists mainly of:

1. Royalties paid by subsidiaries, distributors, and agents and received in return for the right to grant software licenses to end customers;
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 2018 is a loss of €0.3 million compared to a profit of €1.3 million for the previous year.

This decrease of €1.6 million is explained in the table below:

(in € thousands)	2018	2017	Change
OPERATING PROFIT	(337)	1,296	(1,633)
Increase in revenue			2,139
Increase in inventory			583
Decrease in net impact of capitalization of development costs (capitalization and amortization)			(1,399)
Increase in external expenses			(2,168)
Increase in salaries and social charges			(1,609)
Change in provisions for contingencies and risks (operating result)			867
Other change			(46)
TOTAL CHANGE			**(1,633)**

The ESI Group' financial result is a profit of €2.6 million compared to a loss of €2 million in 2017. The financial result can be broken down as follows:

(in € thousands)	January 31, 2019	January 31, 2018
Realized foreign exchange currency result	143	(544)
Interest on loans	(824)	(840)
Provision for depreciation of investments (including in 2018 €1.2 million of reversal of provision for CyDesign Labs)	1,517	(456)
Dividend ESI Japan Ltd	0	3,921
Dividend Mecas ESI s.r.o.	1,690	0
Other financial income (expenses)	70	(77)
TOTAL	**2,595**	**2,004**

Current income before tax is a profit of €2.3 million, compared to €3.3 million in 2017.

The Company has also recorded €2.1 million of exceptional loss including the liquidation result of the subsidiary CyDesign Labs for -€1.3 million.

The Company recognizes a profit on income tax of €2.7 million, compared to €2.2 million in 2017, which corresponds to corporate tax expense of €0.4 million, to French R&D tax credit of €2.9 million and to CICE tax credit of €0.1 million.

Net profit stands finally at €2.8 million, compared to €5.6 million in 2017.

Equity rose by €2.8 million, from €97.6 to €100.4 million primarily due to the net income of the same amount.

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

- fixed assets increased by €4.4 million, from €124.6 to €129 million, due mainly to an increase in capitalized development costs for €2.6 million and an increase in property, plant and equipment for €1.3 million further to Rungis office move;
- financial debt decreased by €3 million, from €39.8 million to €36.8 million. This corresponds to the reimbursement of the revolving credit for -€5 million and the refinancing of the cost of Rungis office move for €1.6 million.

BREAKDOWN OF INVOICES ISSUED AND RECEIVED AT JANUARY 31, 2019 (ARTICLE D. 441-4 OF THE FRENCH COMMERCIAL CODE)

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	184	15	31	40	907	993
Total amount of the invoices (all taxes included)	33,441	675	1,813	1,450	16,890	20,829
Percentage based on total of revenue of the year (all taxes included)	37.63%	0.76%	2.04%	1.63%	19.00%	23.44%
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	68	44	24	26	1,089	1,183
Total amount of the invoices (all taxes includes)	2,996	404	(49)	(41)	26,354	26,667
Percentage based on total of expenses of the year (all taxes included)	4.37%	0.59%	(0.07%)	(0.06%)	38.42%	38.88%
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	7,308					

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, 2019:

- net profit for the year: €2,819,816.34;
- profit carried forward: €38,088,140.54;
- total to be allocated: €2,819,816.34.

Allocation:

- €435 to the legal reserve;
- €2,819,381.34 to profit carried forward.

Following this allocation, the legal reserve stands at €1,805,367.60, representing 10% of share capital. Profit carried forward stands at €40,907,521.88.

4.2. Outlook

4.2.1. Subsequent events

Aware of the potential offered to it but also of the initiatives to be implemented to achieve its objectives, the Company has announced, in April 2019, an ambitious short- and medium-term action plan based on two fundamental axes:

1. **Operational excellence** – optimize operational performance by clarifying the Group's organization;
   - measure, energize and control performance,
   - improve internal/external readability by implementing "Best-in-class" management tools;
2. **Focus: increase commercial efficiency and maximize the ROI of innovation** – capitalize on acquired technologies (M&A) and their complete integration into the Group's solutions:
   - align commercial/R&D resources with a channel (Engineering, Manufacturing, In-Service) and industry approach,
   - focus commercial development on key accounts, as well as on the three sectors: Ground Transportation, Aeronautics and Energy, which account for 75% of sales in 2018.

Furthermore, the Company is submitting a resolution to the Combined General Meeting of July 18, 2019 to change the financial year closing date to December 31, with the consequence that the fiscal year will comprise 11 months (from February 1, 2019 to December 31, 2019).

4.2.2. Business trends

The year 2018, the year of continued transformation, shows a return to growth. The continuation of the plan still has an impact on the Group's profitability level; an announced and necessary one.

The linearization of the Group's organization to align with the value chain of its solutions: from Research to the marketing of solutions, *via* innovation and the Go to Market phase, allows it to eliminate silos in its organization, thus strengthening collaboration, complementarities and, *de facto,* operational efficiency.

By launching at the right time its own in depth technological and organizational transformation, ESI Group has kept pace with the evolution of its industrial lead customers (Industry 4.0 and Smart Factory) and anticipated their future needs. By systematically integrating cutting-edge technologies (Internet of Things, big data, Artificial Intelligence, additive manufacturing etc.) into solutions that draw on its unique expertise in physics of materials, ESI Group has articulated a new global approach centered on industrial productivity and the performance of products beyond their initial development to their entire lifecycle (Product Performance Lifecycle™). The Group's vision of: "zero real tests, zero real prototypes, and zero unscheduled production shutdowns", fully addresses the short- and medium-term objectives of global industrial leaders.

Along with shorten industrial development cycles and time-to-market, regulatory and consumer requirements increase, industrial players must find trusted partners that will enable them to innovate more safely and achieve their performance and productivity objectives.

This approach is gaining traction with the Group's strategic customers and is already bearing fruit in the form of tangible commercial successes. For example:

- elimination of the physical prototyping stage in the tender for supply of equipment for a major European car manufacturer;
- achievement of 'zero real prototype' prior to the five stars official certification stage at a major European car manufacturer;
- use of immersive virtual reality to accelerate and secure the manufacturing of a new helicopter for a US aeronautic OEM.

4.3. Internal control and risk management procedures

4.3.1. Control environment

General organization

ESI Group is a multinational corporation that includes 33 subsidiaries (the "subsidiaries"), 28 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 2018 Board Retreat took place in July, and the 2019 meeting is also planned in July.

Operational departments

These departments primarily supervise business processes and manage projects.

Their role is to oversee the implementation of procedures 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 financial 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 financial control system across the various businesses.

The Administration and Finance Department comprises the following units:

- Accounting and Consolidation, in charge of:
  - daily recording of transactions,
  - establishing periodic financial statements of each entity,
  - 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 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;

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- 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 continue to adapt 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) 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 financial controllers is dedicated to operational divisions of the Group.

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. 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 financial 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 financial 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 serves to:

- monitor the budget 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 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, organization and learning.

Revenue recognition process

The Finance Department is responsible for recognizing revenues and ensuring:

- the consistency between actual revenues and contractual data about 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, to take any necessary preventive action;
- implementation of loans necessary for growth of the Company.

The cash position of each entity is centralized, when local regulations allow, and a consolidated monthly forecast is drawn up each month.

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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 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 and also 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 financial years

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

Balance sheet date	01/31/2019	01/31/2018	01/31/2017	01/31/2016	01/31/2015
Duration of financial year *(number of months)*	12	12	12	12	12
CAPITAL AT BALANCE SHEET DATE					
Share capital *(in €)*	18,053,676	18,049,326	17,975,976	17,865,216	17,845,266
Number of shares					
• ordinary shares	6,017,892	6,016,442	5,991,992	5,955,072	5,948,422
• preference shares					
Maximum number of shares to be created					
• *via* convertible bonds					
• *via* subscription rights	151,448	108,843	175,733	207,080	159,095
OPERATIONS AND RESULTS *(in €)*					
Revenue (excl. tax)	86,022,988	83,883,977	84,313,214	79,156,886	68,487,405
Earnings before tax, employee profit-sharing, allowances for amortization and provisions	27,025,120	31,555,313	28,651,433	21,642,463	25,228,586
Income tax	(2,698,695)	(2,228,379)	(1,669,380)	(2,205,946)	(1,865,499)
Employee profit-sharing			15,967		
Allowances for amortization and provisions	26,903,999	28,762,466	28,688,439	19,916,428	26,012,821
Net income	2,819,816	5,546,976	1,632,374	3,931,981	1,081,264
Distributed earnings					
EARNINGS PER SHARE *(in €)*					
Earnings after tax and employee profit-sharing, before allowances for amortization and provisions	4.94	5.70	5.06	4.00	4.55
Earnings after tax, employee profit-sharing, allowances for amortization and provisions	0.47	0.92	0.27	0.66	0.18
Dividend					
PERSONNEL					
Average headcount	246	243	234	217	212
Payroll *(in €)*	15,880,764	14,766,952	14,159,959	13,203,318	12,446,007
Amounts paid in benefits (social security, social welfare, etc.) *(in €)*	7,466,508	6,971,314	6,711,622	6,295,088	5,772,990

5 FINANCIAL STATEMENTS

5.1. Consolidated financial statements

5.1.1. Consolidated income statement

(in € thousands)	Note	January 31, 2019	January 31, 2018
Licenses and maintenance		109,836	105,748
Consulting		28,793	29,100
Other		784	429
REVENUE	4.1	139,413	135,277
Cost of sales		(37,907)	(37,487)
Research and development costs	6.1.2	(31,718)	(29,311)
Selling and marketing expenses		(43,042)	(41,896)
General and administrative expenses		(19,970)	(18,471)
CURRENT OPERATING RESULT(1)		6,776	8,112
Other operating income and expenses(1)	3.2.2	233	(32)
INCOME FROM OPERATIONS		7,010	8,080
FINANCIAL RESULT	7.2	(1,277)	(2,718)
Share of profit of associates		106	216
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS		5,839	5,578
Provision for income tax	8.1	(2,505)	(3,197)
NET INCOME BEFORE MINORITY INTERESTS		3,334	2,381
Minority interests		0	6
NET INCOME (GROUP SHARE)		**3,334**	**2,375**
Earnings per share *(in €)*	9.3	0.59	0.42
Diluted earnings per share *(in €)*	9.3	0.59	0.42

(1) Reclassification, over the two financial years presented, of the amortization of intangibles assets acquired in business combinations from Other operating income and expenses to Current Operating Result - see note 3.2.2.

Statement of comprehensive income

(in € thousands)	January 31, 2019	January 31, 2018
NET INCOME BEFORE MINORITY INTERESTS	3,334	2,381
Other comprehensive income recycled to income		
Change in the fair value of hedging instruments	15	(1)
Translation differences	(534)	(1,544)
Other comprehensive income (loss) not recycled to income		
Actuarial gains and losses	(201)	(214)
INCOME AND EXPENSES RECORDED DIRECTLY IN EQUITY	(720)	(1,759)
COMPREHENSIVE INCOME	**2,614**	**622**
Attributable to Group equity holders	2,599	671
Attributable to minority interests	15	(49)

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

5.1.2. Consolidated balance sheet

(in € thousands)	Note	January 31, 2019	January 31, 2018
ASSETS			
NON-CURRENT ASSETS		129,389	127,598
Goodwill	3.2	41,404	41,026
Intangible assets	6.1	61,811	59,869
Property, plant and equipment	6.2	6,101	4,877
Investment in associates		1,083	960
Deferred tax assets	8.2	10,920	10,738
Other non-current assets	10.1.1	8,070	10,015
Cash-flow hedging instruments	7.1.4	0	113
CURRENT ASSETS		101,186	94,641
Trade receivables	4.2	65,131	62,924
Other current receivables	10.1.2	15,348	11,954
Prepaid expenses	10.1.3	2,620	4,043
Cash and cash equivalents	7.1.3	18,087	15,720
TOTAL ASSETS		**230,575**	**222,239**
LIABILITIES			
EQUITY		105,633	101,482
Equity (Group share)	**9.1**	104,863	**100,638**
Capital		18,054	18,049
Additional paid-in capital		25,818	25,782
Reserves and retained earnings		57,862	54,082
Net income (loss)		3,334	2,375
Translation differences		(205)	349
Minority interests		771	844
NON-CURRENT LIABILITIES		51,370	47,645
Long term share of financial debt	7.1.2	36,255	34,089
Provision for employee benefits	5.3	9,979	8,798
Deferred tax liabilities	8.2	3,738	3,737
Cash-flow hedging instruments	7.1.4	13	36
Other long term debt		1,385	985
CURRENT LIABILITIES		73,572	73,112
Short-term share of financial debt	7.1.2	8,801	13,464
Trade payables		8,848	9,968
Accrued compensation; taxes and others short-term liabilities	10.2.1	30,560	26,493
Provisions for contingencies, risks and disputes	10.2.2	762	591
Deferred income	4.3	24,601	22,596
TOTAL LIABILITIES		**230,575**	**222,239**

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

5.1.3. Consolidated statement of changes in equity

(in € thousands except number of shares)	Number of shares	Capital	Additional paid-in capital	Net income, reserves and retained earnings	Translation differences	Equity attributable to parent company owners	Minority interests	Total Equity
AT JANUARY 31, 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
Change in fair value of hedging instruments				15		15		15
Translation differences					(554)	(554)	20	(534)
Actuarial gains and losses				(196)		(196)	(5)	(201)
Income and expenses recognized directly in equity				**(181)**	**(554)**	**(735)**	**15**	**(720)**
Net income				3,334		3,334	0	3,334
COMPREHENSIVE INCOME				3,153	(554)	2,599	15	2,614
Proceeds from issue of shares	1,450	4	36			40		40
Treasury shares				(131)		(131)		(131)
Share-based payments				751		751		751
Transactions with non-controlling interests				688		688	(89)	599
Other movements				276		276	1	277
AT JANUARY 31, 2019	**6,017,892**	**18,053**	**25,818**	**61,197**	**(205)**	**104,861**	**771**	**105,633**

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

5.1.4. Consolidated statement of cash flows

(in € thousands)	January 31, 2019	January 31, 2018
Net income before minority interests	3,334	**2,381**
Share of profit of associates	(106)	(216)
Amortization and provisions	4,353	3,905
Net impact of capitalization of research & development costs	(2,679)	(3,216)
Income taxes (current and deferred)	2,505	3,197
Income taxes paid	(1,736)	(3,492)
Unrealized financial gains and losses	(370)	1,497
Share-based payment transactions	751	499
Gains (losses) on sales of assets	(6)	65
OPERATING CASH FLOW	6,046	4,620
Trade receivables	(442)	8,261
Trade payables	(1,066)	(837)
Other receivables and other liabilities	5,582	9
Change in working capital requirement	4,074	**7,433**
NET CASH FROM OPERATING ACTIVITIES	10,120	12,053
Purchase of intangible assets	(796)	(512)
Purchase of property, plant and equipment	(3,395)	(3,067)
Proceeds from the sale of assets	8	-
Acquisition of subsidiaries, net of cash acquired	(4)	(566)
Other investment operations	(2,425)	(2,382)
NET CASH USED FOR INVESTING ACTIVITIES	(6,613)	(6,527)
Proceeds from loans	49,365	11,409
Repayment of borrowings	(49,869)	(15,392)
Proceeds from issue of shares	40	636
Purchase and proceeds from disposal of treasury shares	(131)	(146)
Dividends paid	(89)	(121)
NET CASH USED FROM FINANCING ACTIVITIES	(684)	(3,615)
Effect of exchange rate changes on cash and cash equivalents	(456)	(243)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,367**	**1,665**
Opening cash position	15,720	14,056
Closing cash position	18,087	15,720
NET CHANGE IN CASH AND CASH EQUIVALENTS	**2,367**	**1,665**

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 (see Chapter 1.3.2 of this Registration Document), 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 Twin™ 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 financial year runs from February 1 to January 31. As such, FY 2018 ended on January 31, 2019.

Financial statements are presented in thousands of euros. The 2018 financial statements were approved by the Board of Directors on April 12, 2019 and will be submitted to the General Meeting of July 18, 2019 for approval.

Note 1.2. Accounting standards applied

The consolidated financial statements at January 31, 2019 were prepared in accordance with the IFRS standards, as approved by the European Union at January 31, 2019. 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 financial years beginning on or after February 1, 2018

Change in accounting policies mainly relate to the adoption of IFRS 15 and IFRS 9 standards. These changes are described hereafter.

Other new standards, interpretations or amendments effective beginning on February 1, 2018 had no impact on the Company's consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes the accounting principles that an entity shall apply to recognize revenue from contracts with customers. It replaces the previous standards and interpretations related to revenue recognition, notably IAS 18 "Revenue". The standard provides a single, principle-based, five-step model to be applied in order to define the timing and the amount of revenue arising from a contract. It includes a guide to applying the standard, notably regarding the licenses and specific provisions for how to recognize incremental costs of obtaining or fulfilling a contract, that are not addressed by other standards. The standard requires the disclosure of new qualitative and quantitative information in the notes of the consolidated accounts.

After an analysis of IFRS 15, the Group concluded there were no change in revenue recognition method applied until now, since we historically split licensing revenue between access to the software and related transfer of control, and maintenance service, with an allocation of price between both components and separated revenue recognition methods. The consulting revenue recognized using percentage of completion remained also unchanged. The revenue recognition and accounting principles are detailed in note 4.1.

IFRS 9 – Financial instruments

IFRS 9 "Financial instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurements" and addresses the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

IFRS 9 application does not imply changes to the classification and measurement of financial assets and liabilities.

IFRS 9 introduces a new impairment model based on expected credit loss, while the former standard was based on an incurred credit loss model. The Group has conducted a historical analysis of credit losses and risk profile of trade receivables portfolio by geography and by customer' which has not lead to the identification of higher provisions for bad debts that the impairment recognized previously.

For financial instruments, their eligibility and treatment under hedge accounting or not remain unchanged between IAS 39 and IFRS 9.

Application of new standards prior their mandatory effective date

IFRS 16 – Leases

IFRS 16 is a major revision in the accounting of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. Based on this model, the amortization of assets is accounted for in operating expense, and the cost of the debt towards the lessor is accounted for in financial expense. Under the standard applied on the financial year ended on January 31, 2019, the rent expense is recorded within the operating expense. The Group has chosen to apply two exemptions provided by IFRS 16: recognize short-term leases (term ‹1 year) and leases with underlying asset of low value as operating rent expenses.

The Company adopts IFRS 16 for the financial year beginning February 1, 2019 using the simplified retrospective approach. Under this approach, the effect of the first-time application of the standard is recognized as adjustment to the opening balance of the consolidated equity without restatement of comparative information.

The Group estimates the value of the new right-of-use asset, mainly related to the leased offices and cars, to approximately €23 million.

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 financial 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 notes 3.2 and 3.4

The Group purchased minority interests (51% shares) of ESI US Holdings Inc., of which the Group holds 100% of the capital at January 31, 2019.

The Company dissolved the entity CyDesign Labs, Inc. as of October 31, 2018.

Financing - see note 7.1.2

In December 2018, advance repayment of the previous syndicated loan (outstanding long-term balance of €25,6 million and €10 million revolving credit line) and signing of a new syndicated loan with a €30 million long-term part and €15 million revolving credit line of which €10 million confirmed.

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, 2019 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.

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.

Costs directly related to acquisitions are recorded as expenses when incurred, and presented on a separate line of the income statement, in 'other operating income and expenses'.

For intangible assets acquired in the context of a business combination, amortization is recorded in Current Operating Income, split between 'research and development costs' and 'selling and marketing expenses', depending on the type of asset - codes are amortized over five years in research and development costs, customer relationships are amortized in selling and marketing expenses and their amortization periods vary and are for each newly acquired activity.

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 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 financial 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 cash flows derive from the business plan drawn up by the Group's Management.

The discount rate applied as of January 31, 2019 is the Group's weighted average cost of capital (WACC) adjusted with a risk premium. It stands at 10.5% compared to 12.7% at January 31, 2018.

The present value of the CGU is determined by adding:

- the present value of forecasted future cash flows over the explicit period of 5 years, as described above;
- the terminal value calculated by capitalizing to perpetuity the last cash-flow of the explicit period. The long-term growth rate applied is 3%.

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, 2019 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 or a 1% decrease in the long-term growth rate. No impairment has been identified. The Group's Management believe no reasonable change in key assumptions mentioned above that would have caused the CGU's recoverable to be significantly below its carrying amount.

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, 2018	Increase	Decrease	Foreign exchange gain/loss	January 31, 2019
Gross values	41,026			378	41,404
TOTAL NET VALUES	**41,026**			**378**	**41,404**

No acquisition took place during financial year 2018.

The purchase price allocation of Scilab Enterprise is definitive since financial year 2018 closing and remains unchanged compared to which had been booked in 2017: the difference between the initial purchase price, the estimated additional consideration and the net asset value at the acquisition date has been fully affected to goodwill. The adjustment on the estimated additional consideration to be paid in 2019 is not significant (€34 thousand) and booked in non-recurring result.

3.2.2. Non-recurring result

(in € thousands)	January 31, 2019	January 31, 2018
Acquisition costs	0	(36)
Other external expenses and income	233	4
TOTAL OPERATING INCOME AND EXPENSES	**233**	**(32)**

Until January 31, 2018, the amortization of intangibles assets acquired in business combinations was presented in Other operating income and expenses. However, due to significant amounts involved and the recurrence of the amortization, it has been reclassed in the Current operating result effective from January 31, 2019 closing – see note 3.3. To ensure relevant comparison, data as of January 31, 2018 have been reclassified in the comparative table above and the financial statements.

Note 3.3. Amortization of intangibles assets acquired in business combinations

Starting from January 31, 2019, the amortization of intangibles assets acquired in business combinations is presented in the Current operating result, allocated between research and development costs and selling and marketing expenses depending on their type (respectively for codes and customer relationships).

At January 31, 2019, the amortization of codes amounts to €407 thousand (€464 thousand as of January 31, 2018), and the amortization of the customer relationships stands at €613 thousand (same amount as of financial year 2017).

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, 2019	January 31, 2018
FULLY CONSOLIDATED SUBSIDIARIES				
Engineering System International	April 1973	Paris, France	100%	100%
Engineering System International GmbH	July 1979	Eschborn, Germany	100%	100%
ESI Japan, Ltd.	July 1991	Tokyo, Japan	97%	97%
ESI North America, Inc.	March 1992	Troy, 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	London, England	100%	100%
ESI US Holding, Inc.	August 2002	Dover, Delaware, United States	100%	49%
ESI US R&D, Inc.	August 2002	San Diego, California, USA	100%	74%
Calcom ESI SA	December 2002	Lausanne, Switzerland	99%	99%
ESI Software (India) Private Limited	February 2004	Bangalore, India	100%	100%
Hong Kong ESI Co., Limited	February 2004	Hong Kong, China	100%	100%
Zhong Guo ESI Co., Ltd	February 2004	Guangzhou, China	100%	100%
ESI-ATE Holdings Limited	July 2006	Hong Kong, China	100%	100%
ESI ATE Technology (China) Ltd.	August 2006	Beijing, China	100%	100%
ESI South America Comércio e Serviços de Informatica, Ltda	June 2008	São Paulo, Brazil	95%	95%
ESI Italia s.r.l.	September 2008	Bologna, Italy	100%	100%
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%	100%
ESI Nordics 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	0%	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%	100%
Scilab Enterprises	February 2017	Paris, France	100%	100%
SUBSIDIARIES ACCOUNTED FOR USING THE EQUITY METHOD				
JV AECC-ESI (Beijing) Technology Co. Ltd	February 2014	Beijing, China	45%	45%

Note 4. Operating data

Note 4.1. Revenue

The Group ESI derives revenue from two primary sources: a software licensing and related maintenance activity, and services activity.

The Company accounts for a contract with a client when there is a written agreement that creates legally enforceable rights and obligations, including payment terms, when the contract has commercial substance and when collection consideration is probable. A performance obligation is a promise in a contract with a client to transfer products or services that are distinct from the other promises of the contract.

Revenue is recognized when, or as, control of a promised product or service is transferred to a client, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those products or services.

Software licensing and maintenance

Licensing revenue is generated from royalties paid under licensing agreements granted to end customers and related maintenance services. Maintenance services include updates and technical support. Revenue is split between three types of contracts:

- lease of annual renewable licenses that include the right to use the software plus maintenance services for one year;
- lease of "paid up licenses" conferring to end clients the right to use the software for unlimited duration, with one year of maintenance services – with the possibility of renewal through a maintenance contract;
- maintenance services alone – this contract completes "paid up licenses" contracts.

In compliance with IFRS 15, ESI' customer contracts have been analyzed in five stages in order to identify the component of the performance obligations and the price of each. Two performance obligations have been identified: access to the license (the licensing itself) and the maintenance service – please note that this distinction has been applied by the Group prior the entry into force of the standard. For the annual licensing contracts and the "paid up licenses", the allocation of the price has been realized according to the residual approach. As a result, 15% of the price of annual licensing contracts and 5% of the price of "paid up licenses'" contracts have been allocated to maintenance service. Revenue for the access to the license is recognized at a point in time at the moment when control is transferred to the client, and the revenue from maintenance service is recognized on a straight-line basis over the one-year term of the support agreement.

Services

Service revenue consists mainly of consulting and training fees. The consulting revenue is recognized according to the percentage of completion method. Corresponding costs are recorded as soon as they are incurred. Contracts with a probable final loss are covered by a provision for loss on completion, recorded as a liability on the balance sheet. The loss is fully provisioned as soon as it is known and reliably estimated, regardless the stage of completion. Revenue for training is recognized upon completion.

Backlog

The Group's backlog for licensing activity is composed of all signed orders received from customers at the closing date, with execution starting from the first day of next fiscal year.

Despite most of licensing contracts are renewable from a fiscal year to the next one, only signed orders for next year are included in the backlog. As purchase order are often send and signed by customers just before start of the execution period, this explain the level of backlog vs high recurring part of licensing contracts.

For services activity, backlog is composed of work to be done on contracts being executed, and of contracts signed at closing date which execution has not started yet.

(in € thousands)	January 31, 2019	January 31, 2018
TOTAL LICENSES AND MAINTENANCE	109,836	105,748
Consulting	28,793	29,100
Other revenue	784	429
TOTAL SERVICES	29,577	29,529
CONSOLIDATED REVENUE	**139,413**	**135,277**
O/w total co-financed research and development projects included in service revenue	**4,567**	**5,045**

Backlog as of January 31, 2019 amounts to €4.2 million, out of which €3.3 million for Licensing and €0.9 million for Services.

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, reduced when applicable by impairment resulting from non recoverable amounts and estimate of future losses.

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. Impairment of trade receivables represents best estimate of the risk related to the asset.

Contract assets and liabilities

After having delivered its services, the Group records the customers counterparty either as trade receivables or as contract assets. A trade receivable is an unconditionnal right to be paid, while a contract asset is a right to be paid which is conditionned to factors other than time.

Contract assets are related to amounts to be invoiced on contracts with milestones or subject to customer's acceptance.

When invoiced amounts exceed recognised revenue, difference is recorded as contract liabilities.

DETAILS OF TRADE RECEIVABLES

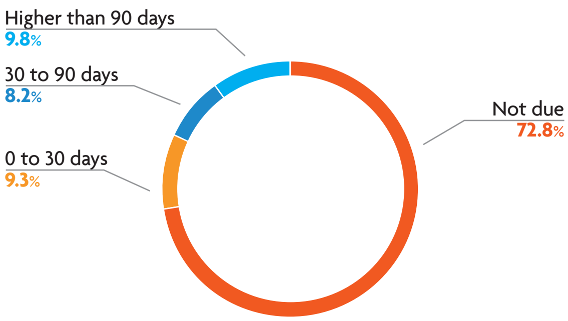
(in € thousands)	January 31, 2019	January 31, 2018
Trade receivables	64,822	62,584
Impairment of trade receivables	(3,810)	(4,010)
TOTAL TRADE RECEIVABLES, NET OF IMPAIRMENT	**61,012**	**58,574**

(in € thousands)	January 31, 2018	Consolidation scope entry	Provisions	Reversals	Foreign exchange gain/loss	Other movements	January 31, 2019
Impairment	(4,010)		(777)	986	(32)	22	(3,810)
TOTAL	**(4,010)**		**(777)**	**986**	**(32)**	**22**	**(3,810)**

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, 2019	January 31, 2018
Not due	44,390	39,262
0 to 30 days	5,652	7,300
30 to 90 days	4,999	5,811
Higher than 90 days	5,971	6,201
TOTAL	**61,012**	**58,574**

The amount of trade receivables not due represents 31.8% of annual revenue. The large amount of not due receivables results from highly sales, especially at the end of the fourth quarter.

The amount of trade receivables due for more than 90 days includes receivables from Chinese state or parastatal clients for which collection time is more important.

CONTRACT ASSETS

(in € thousands)	January 31, 2019	January 31, 2018
Contract assets	4,119	4,350

Note 4.3. Contract liabilities and deferred income

(in € thousands)	January 31, 2019	January 31, 2018
Contract liabilities - Maintenance services to be rendered	19,979	18,309
Other deferred income	4,622	4,287
DEFERRED INCOME	**24,601**	**22,596**

Note 4.4. Operating expenses

(in € thousands)	January 31, 2019	January 31, 2018
Other purchases and external expenses	(13,088)	(12,794)
Real estate rentals	(6,764)	(6,524)
Fees	(3,164)	(3,719)
Taxes and duties	(515)	(572)
Amortization and provisions	(3,465)	(3,627)
Personnel costs(1)	(92,774)	(88,313)
Other external expenses and income	(12,866)	(11,616)
TOTAL CURRENT OPERATING EXPENSES	(132,636)	(127,165)
Other operating income and expenses(2)	233	(32)
TOTAL OPERATING EXPENSES	**(132,403)**	**(127,197)**

(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 develops sells and provides technical support for its softwares 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). Revenue is split between regions where it is actually produced.

(in € thousands)	Europe, Middle East and Africa	Asia-Pacific	Americas	Eliminations	Consolidated
YEAR ENDED JANUARY 31, 2019					
External clients	68,843	49,769	20,802		139,413
Affiliate companies	83,328	9,425	7,292	(100,046)	
NET SALES	152,172	59,193	28,094	(100,046)	139,413
ASSETS ALLOCATED	**301,695**	**43,191**	**20,188**	**(134,500)**	**230,575**
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**

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, 2019 are listed below:

(in € thousands) Due at January 31	2020	2021	2022	2023	2024 and beyond	Total
MINIMUM RENTAL PAYMENT	**8,446**	**5,159**	**3,136**	**2,501**	**3,589**	**22,831**

At January 31, 2019, 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, 2019	January 31, 2018
France	317	300
Rest of the world	904	901
	1,221	**1,201**

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, 2019	January 31, 2018
Salaries	(73,626)	(70,821)
Payroll taxes	(17,834)	(16,497)
Share-based payments	(751)	(499)
Post-employment benefits	(563)	(497)
TOTAL PERSONNEL COSTS	**(92,774)**	**(88,313)**

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 financial 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, 2019	January 31, 2018
France	1.45%	1.40%
Germany	1.66%	1.60%
Japan	0.43%	0.56%
South Korea	2.10%	2.70%
India	7.83%	7.92%

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, 2019	January 31, 2018
France	2.50%	2.50%
Germany	2.00%	2.00%
Japan	3.00%	3.00%
South Korea	4.00%	4.00%
India	10%	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, 2018	Change in equity (OCI)	Provisions	Reversals	Foreign exchange gain/loss	Other movements	January 31, 2019
Provision for employee benefits	8,798	269	901	(221)	197	35	9,979
TOTAL	**8,798**	**269**	**901**	**(221)**	**197**	**35**	**9,979**

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

(in € thousands)	January 31, 2019	January 31, 2018
CHANGE IN COMMITMENTS		
COMMITMENTS AT OPENING	(10,666)	(10,152)
Acquired companies	-	-
Costs of services rendered in the period	(902)	(824)
Interest expenses	(223)	(218)
Benefits paid	243	412
Actuarial gains and losses	(271)	(292)
Others	5	-
Foreign exchange gain/loss	(211)	409
COMMITMENTS AT CLOSING	**(12,034)**	**(10,666)**
CHANGE IN FAIR VALUE OF ASSETS		
FAIR VALUE OF ASSETS AT OPENING	1,867	1,680
Acquired companies		-
Yield on assets	49	32
Employer contributions	175	322
Benefits paid	(21)	(85)
Actuarial gains and losses booked in equity	2	(8)
Foreign exchange gains and other	15	**(75)**
FAIR VALUE OF ASSETS AT CLOSING	**2,086**	**1,867**
NET EXPENSE FOR THE YEAR		
Costs of services rendered	(901)	(824)
Finance charges	(175)	(186)
Interest expenses	(223)	(218)
Yield on assets	49	32
NET EXPENSE FOR THE YEAR	**(1,076)**	**(1,010)**
PROVISION RECORDED IN THE BALANCE SHEET		
Commitments financed	(4,900)	(3,136)
Fair value of assets	2,141	1,114
NET COMMITMENTS FINANCED	(2,759)	(2,021)
Commitments not financed	(7,686)	(6,777)
PROVISION AT CLOSING	**(10,445)**	**(8,798)**
CHANGE IN PROVISION		
PROVISION AT OPENING	(8,798)	(8,472)
Net expense for the year	(1,076)	(1,010)
Actuarial gains and losses	(269)	(299)
Employer contributions	175	322
Benefits paid	221	327
Acquired companies		-
Foreign exchange gain/loss	(197)	334
Others	(35)	-
PROVISION AT CLOSING	**(9,979)**	**(8,798)**

5.3.3. Sensitivity of commitments to fluctuations in the discount rate

(in € thousands)	January 31, 2019
Commitment -0.5%	(12,992)
Commitment	(12,034)
Commitment +0.5%	(11,328)

(in € thousands)	January 31, 2019
Experience adjustment	(94)
Change in financial assumptions	(132)
Yield on assets	(31)
Change in demographic assumptions	(11)
TOTAL ACTUARIAL GAINS/LOSSES	**(269)**

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 period, 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	Exercise price	Number of existing stock options/shares at January 31, 2019	Limit year for exercising options
Plan 10 (GM 2012)	02/01/2013		150,850	62,300	27.82	39,300	2021
Plan 10 *Bis* (GM 2012)	02/07/2014		11,000		24.42	375	2022
Plan 10 *Ter* (GM 2012)	02/01/2015		15,000		21.66		2025
Plan 10 *Quater* (GM 2012)	07/22/2015		3,150		27.17	2,100	2025
	Total	**180,000**	**180,000**	**62,300**		41,775	
Plan 15 (AG 2013)	02/01/2015	294,538	20,000	20,000	21.66		2025
Plan 17 (GM 2014)	07/22/2015		7,350			4,900	2023
Plan 17 *Bis* (GM 2014)	03/11/2016		10,000		23.35		2026
Plan 17 *Ter* (GM 2014)	05/05/2017		18,175		27.92	16,300	2025
Plan 17 *Quater* (GM 2014)	05/05/2017		1,875	1,875	50.92		2025
	Total	**180,000**	**37,400**	**1,875**		21,200	
Plan 19 (GM 2017)	07/18/2018		43,950	32,963	42.97	42,700	2026
Authorization given at the GM of July 2017		229,600					
TOTAL STOCK-OPTIONS		952,291	281,35	117,138		105,675	
Plan 6 (GM 2016)	07/21/2016		25,000			8,332	2020
Plan 7 (GM 2016)	12/23/2016		2,275				2021
Plan 8 (GM 2016)	08/01/2017	60,000	9,000			9,000	2021
Plan 9 (GM 2018)	07/18/2018		10,619	7,963		10,619	2020
Plan 9 *Bis* (GM 2018)	07/18/2018		2,441			2,324	2020
Plan 9 *Ter* (GM 2018)	07/18/2018	60,000	15,500			15,500	2022
TOTAL FREE SHARES		120,000	64,833	7,963		45,773	
TOTAL STOCK-OPTIONS AND FREE SHARES		**1,072,291**	**346,183**	**125,101**		**151,448**	

The total expense related to share-based payments for the financial year ended January 31, 2019 stands at €115 thousand. That related to free shares stands at €636 thousand.

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

Movements in stock options and free shares plans

	2018		2017	
	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	108,843	20.34	175,733	21.56
Stock options/free shares granted	72,510	42.97	29,050	35.14
Stock options expired or canceled	(9,823)	36.84	(71,490)	26.76
Stock options exercised and free shares delivered	(20,080)	41.01	(24,450)	26.09
STOCK OPTIONS AND SHARES EXISTING AT THE CLOSING	151,450	24.49	108,843	20.34
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 02/01/2013)	26.99	4	24.80%	0%	1.30%
Plan 10 *Bis* (Board of 02/07/2014)	24.50	3	23.73%	0%	0.30%
Plan 10 *Ter* (Board of 02/01/2015)	24.94	4	22.13%	0%	0.36%
Plan 10 *Quater* (Board of 07/22/2015)	28.31	4	23.36%	0%	0.65%
Plan 15 (Board of 02/01/2015)	24.94	4	23.36%	0%	0.65%
Plan 17 *Bis* (Board of 07/22/2015)	28.31	4	22.13%	0%	0.36%
Plan 17 *Ter* (Board of 03/11/2016)	24.39	1 to 5	22.79%	0%	0.65%
Plan 17 *Quater* (Board of 05/05/2017)	55.56	2 to 4	28.16%	0%	0.86%
Plan 17 (Board of 05/05/2017)	55.56	2 to 4	28.16%	0%	0.86%
Plan 19 (Board of 07/18/2018)	42.97	2 to 4	37.33%	0%	0.66%
FREE SHARES					
Plan 6 (Board of 07/21/2016)	30.30	2 to 4	N/A	0%	1.2%
Plan 7 (Board of 12/23/2016)	45.73	2	N/A	0%	1.1%
Plan 8 (Board of 08/01/2017)	46.19	2 to 4	N/A	0%	1.1%
Plan 9 (Board of 07/18/2018)	42.97	2 to 4	N/A	0%	0.95%

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, 2018	Increase	Decrease	Foreign exchange gain/loss	Other movements	January 31, 2019
GROSS VALUES						
Development costs	57,720	29,937	(24,465)	-	-	63,192
Intangible assets with an indefinite useful life	12,044			-		12,044
Other intangible assets	21,048	745	(15)	(141)	(1)	21,636
TOTAL	**90,812**	**30,681**	**(24,480)**	**(141)**	**(1)**	**96,872**
AMORTIZATION						
Development costs	(16,248)	(27,258)	24,465		-	(19,041)
Intangible assets with an indefinite useful life	(73)				-	(73)
Other intangible assets	(14,623)	(1,482)	15	141	1	(15,948)
TOTAL	**(30,944)**	**(28,740)**	**24,480**	**141**	**1**	**(35,062)**
NET CARRYING AMOUNTS						
Development costs	41,473	2,679		-	-	44,152
Intangible assets with an indefinite useful life	11,971			-	-	11,971
Other intangible assets	6,425	(737)	-	-	-	5,687
TOTAL	**59,869**	**1,942**	**-**	**-**	**-**	**61,811**

6.1.2. Capitalized development costs

Research 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 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 financial 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, 2019	January 31, 2018
Development costs capitalized during the period	29,937	29,511
Development costs amortized during the period	(27,258)	(26,295)
NET IMPACT OF THE CAPITALIZATION OF DEVELOPMENT COSTS	**2,679**	**3,216**

Net value of capitalized developments costs represents 14.4 months of research and development costs (€44.1 million) incurred at January 31, 2019, compared to 14.3 months (€41.4 million) at January 31, 2018.

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

(in € thousands)	January 31, 2019	January 31, 2018
R&D costs incurred during the period(1)	(36,763)	**(34,873)**
Development costs capitalized during the period	29,937	29,511
Development costs amortized during the period	(27,258)	(26,295)
French R&D tax credit	2,979	2,959
Amortization of codes acquired in business combinations	(613)	(613)
TOTAL R&D COSTS RECOGNIZED AS EXPENSES DURING THE FINANCIAL YEAR	**(31,718)**	**(29,311)**

(1) Including €6.826 million in expenses accounted for as direct costs in 2018, compared to €5.362 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, 2019 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	1 to 3 years
Other operational software	Straight-line	3 to 5 years
Codes - third-party software integrated into products	Straight-line	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	5 to 10 years
Computer hardware	Straight-line	3 to 5 years
Office furnishings	Straight-line	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, 2018	Change in scope of consolidation	Increase	Decrease	Foreign exchange gain/loss	January 31, 2019
GROSS VALUES						
Fixtures and fittings	4,226		1,262	(939)	46	4,596
Computer hardware	14,501		1,656	(575)	51	15,633
Office furnishings and other tangible assets	3,571		395	(457)	(1)	3,508
TOTAL	**22,298**		**3,314**	**(1,970)**	**96**	**23,737**
AMORTIZATION						
Fixtures and fittings	(2,892)		(294)	939	(8)	(2,254)
Computer hardware	(11,790)		(1,564)	571	(8)	(12,791)
Office furnishings and other tangible assets	(2,740)		(303)	457	(5)	(2,591)
TOTAL	**(17,422)**		**(2,161)**	**1,967**	**(21)**	**(17,636)**
NET CARRYING AMOUNTS						
Fixtures and fittings	1,335		969	-	39	2,342
Computer hardware	2,711		92	(3)	42	2,842
Office furnishings and other tangible assets	831		92	-	(6)	917
TOTAL	**4,877**		**1,153**	**(3)**	**75**	**6,101**

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;
- short-term trade receivables — see details in note 4.2, and short-term trade payables.

7.1.1. Fair value of financial assets and liabilities

	Carrying amount as of January 31, 2019			
(in € thousands)	Amortized cost	Fair value through equity	Fair value through profit and loss	Total
ASSETS				
Financial assets:				
• Non-consolidated investments			28	28
• Deposits and guarantees	2,929			2,929
• French R&D tax credit receivables for 2014, 2015 and 2016	7,322			7,322
• Derivative assets			-	-
Trade receivables	65,131			65,131
Cash and cash equivalents			18,073	18,073
LIABILITIES				
Bank borrowings	38,841			38,841
Factoring of French R&D tax credit for 2014, 2015 and 2016	7,322			7,322
Other financial debts	1,342			1,342
Derivative liabilities		13		13
Other financial liabilities		1,199		1,199
Payables	8,848			8,848

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

ESI Group's main source of financing is the syndicated loan. In December 2018, the previous syndicated loan signed in November 2015 was reimbursed by anticipation (long-term outstanding balance of €25.6 million and use of the revolving loan for €10 million) and a new syndicated loan signed with a pool of seven banks.

This new syndicated loan consists of a long-term part of €30 million and a revolving loan of €15 million, of which €10 million has been confirmed. The long-term part will be gradually reimbursed annually on April 30 each year until April 30, 2025. The syndicated loan is remunerated based on the Euribor rate and a margin of 2%, 2.25% or 2.5% depending on the level of the Net financial debt/EBITDA ratio related to previous year financial statements. The margin initially used after signature of the syndicated loan is 2.5%.

At the date of approval of financial statements by the Board of Directors, the entire revolving line of credit has been paid off.

All financial debts are denominated in euros.

Detail and maturity of financial debt

At January 31, 2019	Maturity at January 31					
(in € thousands)	2019	2020	2021	2022	2023 and beyond	Total
Syndicated loan	2,000	1,890	3,390	4,390	17,780	29,450
Short-term revolving loan	1,000					1,000
Other bank borrowings	3,111	600	600		1,575	5,886
Factoring of French R&D tax credit for 2015, 2016 and 2017	2,448	2,433		2,441		7,322
Repayable advances	119	33			995	1,147
Other financial debts	123	65	65			253
TOTAL	**8,801**	**5,021**	**4,055**	**6,831**	**20,350**	**45,058**
	CURRENT: 8,801					NON-CURRENT: 36,256

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					6000
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
Repayable advances	119					119
Other financial debts	148	467	65	65	0	744
TOTAL	**13,464**	**4,931**	**6,520**	**9,410**	**12,227**	**47,553**
	CURRENT: 13,464					NON-CURRENT: 34,089

Financial debt by type of interest rate and maturity

At January 31, 2019	Maturity at January 31					
(in € thousands)	2019	2020	2021	2022	2023 and beyond	Total
Fixed-rate debt	-	-	-	-	1,575	1,575
Variable-rate debt	8,558	4,923	3,990	6,831	17,780	42,082
No-interest debt	243	98	65		995	1,401
TOTAL	**8,801**	**5,021**	**4,055**	**6,831**	**20,350**	**45,058**
	CURRENT: 8,801					NON-CURRENT: 36,256

The following table shows the changes in financial debt in 2018, with a split between flows with cash impact and flows without cash impact.

(in € thousands)		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	Other movement	January 31, 2019
Syndicated loan	30,085	29,450	(30,085)	-	-	-	-	29,450
Short-term revolving loan	6,000	11,000	(16,000)	-	-	-	-	1,000
Other bank borrowings	3,733	5,847	(3,628)	-	-	-	(68)	5,886
Factoring of French R&D tax credit	6,872	2,441	-	-	-	-	(1,991)	7,322
Profit-sharing funds	119	627		-	-	-	401	1,147
Other financial debts	744	-	(156)	-	-	(2)	(334)	253
TOTAL	**47,553**	**49,365**	**(49,869)**	**-**	**-**	**(2)**	**(1,991)**	**45,058**

Other movement related to factoring of French R&D tax credit represents the repayment by the French state of 2014 receivable directly to the factoring bank — thus this flow has no cash impact for ESI Group.

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, in accordance with IAS 7.

In accordance with IFRS 9, marketable securities are recognized at market value at the closing date. Changes in market value are recognized in Financial Result.

The Group classifies as cash equivalents 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.

(in € thousands)	January 31, 2019	January 31, 2018
Cash	18,073	15,502
Marketable securities	14	219
TOTAL CASH AND CASH EQUIVALENTS	**18,087**	**15,721**

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 IFRS 9, derivative instruments are recorded at fair value on the balance sheet.

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

- hedges accounting: 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: changes in fair value measurement of these derivative instruments are recognized in Financial Result.

Interest rate instruments

Interest rate swaps signed by ESI Group have always been set up to hedge the variable interest rate of the syndicated loan.

The new syndicated loan signed in December 2018 requires set up of interest rates hedging instruments at the latest four months after the signature – as of January 31, 2019 there are not put in place yet. Active interest rates instruments at January 31, 2019 relate to previous syndicated loan, hedge accounting cannot thus be applied and the fair value of these swaps is recorded in income statement in financial result.

Interest rate swaps active at January 31, 2019 are as follows:

- three swaps of €2 million, ESI Group receiving variable rate 1-month Euribor (with a 0% floor) and paying a fixed rate of 0.16%, 0.18% and 0.19%;
- 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, 2019, the market value of these instruments was -€12 thousand.

Foreign exchange instruments

In order to manage foreign currency risk on cash flows between the Group's parent company and its subsidiaries, ESI Group may purchase foreign currency options at any time and enter into any other type of foreign exchange contract. Foreign exchange instruments in place during 2018 concerned Japanese yen, South Korean won (non-delivery forwards) and Indian rupee (non-delivery forwards). At January 31, 2019, all foreign exchange instruments arrived to maturity and their result was booked in income statement in financial result.

Note 7.2. Financial income and expenses

(in € thousands)	January 31, 2019	January 31, 2018
Interest and related expenses on borrowings	(1,187)	(962)
Interest income	32	4
Foreign exchange gain/(loss)	379	(1,290)
Other financial expenses	(501)	(466)
FINANCIAL RESULT	**(1,277)**	**(2,714)**

Interests on borrowings are mostly related the syndicated credit and related charges. The increase of this expense compared to the previous year is due to the costs of set up for the previous syndicated loan early repayed during this financial year for an amount of €0.3 million.

Details on foreign exchange gains and losses are as follows:

(in € thousands)	January 31, 2019	January 31, 2018
USD	184	(516)
JPY	(54)	(378)
KRW	206	(136)
Other currencies	42	(261)
TOTAL	**379**	**(1,290)**

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

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.

Note 7.3. Risk management policy

Country risk and foreign currency risk

During the financial year ended January 31, 2019, 49.4% of the Group's revenue was generated in Europe, 35.6% in Asia (mainly Japan, South Korea, China and India) and 15% in the Americas (mainly the United States). 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 financial year ended January 31, 2019, 46.4% of revenue was generated in EUR, 19.4% in USD (US dollar), 17.9% in JPY (Japanese yen), 6.6% in KRW (Korean won) and 4.6% in CZK (Czech koruna).

Furthermore, 56.6% of costs are spent in EUR, 15.4% in USD, 7.5% in JPY, 6.6% in INR (Indian rupee), 2.5% in KRW, 3.3% in CZK 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	129.50	142.45	(1.4)
KRW	1,297.64	1,427.40	(0.2)
CZK	25.66	28.23	(0.3)
USD	1.17	1.29	(0.2)
INR	80.99	89.09	0.5
CHF	1.15	1.27	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, 2019, €1 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, than at the end of the financial year.

The calculations of foreign-exchange sensitivity presented below assume that financial debts remain stable at January 31, 2019 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	(8,558)	(15,744)	(17,780)	(42,082)
Variable rate financial assets				
Off-balance sheet commitments				
NET POSITION	**(8,558)**	**(15,744)**	**(17,780)**	**(42,082)**
Sensitivity to a 1-point decrease				-
Sensitivity to a 1-point increase				(266)

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 ratio to be maintained (covenants) with regard to the syndicated loan contract entered into in December 2018 is detailed in note 7.4.

Note 7.4. Off-balance sheet commitments relating to Group financing

As part of the credit agreement dated December 20, 2018, ESI Group granted a pledge of 99.98% of the shares of Engineering System International, 100% of the shares of the subsidiary ESI Software Germany, and 96% of the shares of the subsidiary ESI ITI GmbH.

As long as it owes an obligation under the agreement or the security documents, the borrower undertakes, under prepayment constraint, to comply with the ratio of consolidated net financial debt divided by consolidated EBITDA, the thresholds to be respected over the term of the syndicated loan agreement are gradually decreasing. As at January 31, 2019, the threshold to be respected is 3.5%. At January 31, 2019, on the basis of the annual consolidated financial statements certified by the Statutory Auditors, the Group was in compliance with this ratio.

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, 2019	January 31, 2018
Current taxes	(2,397)	(2,494)
Deferred taxes	(109)	(703)
TOTAL	**(2,505)**	**(3,197)**

8.1.2. Tax proof

(in € thousands)	January 31, 2019	January 31, 2018
Net income before taxes	5,840	**5,578**
Including share of profit of associates	106	216
Theoretical tax rate	29.5%	**33.33%**
Theoretical tax (expense)/benefit	(1,692)	**(1,786)**
Permanent differences between net result and taxable income	(452)	(667)
Impact of liability method	(39)	(582)
Impact of standard tax rate differentials between parent company and subsidiaries	384	148
Unrecognized deferred tax assets and unused tax losses	(706)	(541)
Recognition of previously unrecognized deferred tax assets	-	230
GROUP INCOME TAX EXPENSE	**(2,505)**	**(3,197)**
Effective tax rate	43.7%	59.6%

Note 8.2. Deferred taxes

BREAKDOWN OF DEFERRED TAXES BY TAX BASE

(in € thousands)	January 31, 2019	January 31, 2018
DEFERRED TAX ASSETS		
Tax loss carryforwards	1,128	1,752
Temporary differences related to tax treatment of maintenance	4,478	4,038
Provisions for employee benefit commitments	3,159	2,937
Temporary differences related to personnel	590	507
Provisions and other adjustments	1,566	1,505
TOTAL DEFERRED TAX ASSETS	10,920	10,738
DEFERRED TAX LIABILITIES		
Amortization of acquired intangible assets	(1,323)	(1,722)
Other	(2,415)	(2,015)
TOTAL DEFERRED TAX LIABILITIES	(3,738)	(3,737)
NET DEFERRED TAX	**7,182**	**7,001**

Unrecognized deferred tax assets on tax loss carryforwards came to €2.2 million. The timeframe used for estimating the recoverability of these deferred tax assets is generally five years.

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

(in € thousands)	
NET DEFERRED TAX ASSETS AT OPENING (FEBRUARY 1, 2018)	7,001
Acquired companies	-
Deferred tax expenses recorded in the income statement	(108)
Deferred tax expenses recognized directly in equity (IAS 19 revised)	60
Foreign exchange gain/loss on deferred tax expenses	(21)
Other movements	251
NET DEFERRED TAX ASSETS AT CLOSING (JANUARY 31, 2019)	**7,182**

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, 2019, ESI Group's share capital was €18.053 million, comprising 6,017,892 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 19,424 shares over the financial year. The percentage of capital held as treasury shares following these transactions stood at 6.4% at January 31, 2019, compared to 6.8% at January 31, 2018. The Group owns a total of 390,882 treasury shares, purchased at a historical cost of €4.215 million and with a market value of €10.143 million at the same date, for an unrealized gain of €5.929 million.

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.

Note 9.3. Earnings per share

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

(in € thousands)	January 31, 2019	January 31, 2018
NET INCOME (GROUP SHARE)	**3,334**	**2,375**
Net earnings per share *(in €)*	0.59	0.42
Average number of shares	5,616,310	5,594,573
Diluted earnings per share *(in €)*	0.59	0.42
Average number of diluted shares	5,666,522	5,648,574

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, 2019	January 31, 2018
Security deposits	2,929	3,043
Factored French R&D tax credit	4,874	6,872
Other long term assets	239	247
Investments in non-consolidated companies	28	24
TOTAL OTHER NON-CURRENT ASSETS	**8,070**	**10,186**

Security deposits mainly concern real estate rentals.

Factored French R&D tax credit receivables concern FY 2016 and FY 2017 (see note 7.1.2).

Factoring of French R&D tax credit receivables represents a cash in flow, which counterparty is a financial debt. Thus, in the cash flow statement, cash collected related to this factoring corresponds to the increase of new borrowings, such as indicated in the financing flows' part (respectively for €2.433 million and €2.441 million on January 31, 2018 and January 31, 2019).

The two other flows presented in the cash-flow statement related to the factoring of French R&D tax credit receivables result from book entries. They are:

- the increase of long-term receivable in consolidated statements (non-current assets in investments' part of cash flow statement) for respectively €2.836 million and €2.834 million on January 31, 2018 and January 31, 2019;
- the decrease of short-term receivable in local accounts of the parent company (operating cash flows' part of cash flow statement) for the same amounts.

10.1.2. Other current receivables

(in € thousands)	January 31, 2019	January 31, 2018
French R&D tax credit	6,036	3,038
Other tax credits	1,392	1,941
VAT and other receivables	7,920	6,975
TOTAL OTHER CURRENT ASSETS	**15,348**	**11,954**

French R&D tax credit receivables as of January 31, 2019 are related to costs incurred in FY 2018, for an amount of €3,588 thousand, and 2015 for the balance (repayment by the French State planned for 2019).

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, 2019	January 31, 2018
Employee-related liabilities	15,329	12,792
Tax payables	10,640	9,692
Other current liabilities	4,590	4,009
TAX PAYABLES, EMPLOYEE-RELATED LIABILITIES AND OTHER SHORT-TERM LIABILITIES	**30,560**	**26,493**

Tax payables consist primarily of VAT payables for €9.431 million.

10.2.2. Other provisions

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision is recorded when the following three 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, 2018	Provisions	Reversals - provisions used	Reversals - provisions not used	Foreign exchange gain/loss	January 31, 2019
Disputes	591	182	(26)	-	15	762
CURRENT PROVISIONS FOR LIABILITIES	**591**	**182**	**(26)**	**-**	**15**	**762**

Note 11. Related party transactions

Executive corporate officers' compensation

Compensation and benefits paid to the Group's three executive corporate officers during the financial years ended January 31, 2019 and January 31, 2018 breaks down as follows:

(in € thousands)	January 31, 2019	January 31, 2018
Fixed compensation	717	726
Variable compensation	42	43
Travel bonus	17	129
Benefits in kind	160	198
Directors' fees	16	16
TOTAL	**952**	**1,113**

Related party transactions

Ms. Cristel de Rouvray, Director, carried out during 2018 assignments relating to human resources, consulting and strategic management for $100 thousand, continuing work started in previous years. This agreement was renewed by the Board of Directors during April 17, 2018 meeting and approved by General Meeting on July 18, 2018. Moreover, Ms. de Rouvray also carried out specific assignments relating to governance change, for $32 thousand. This agreement has been autorized by the Board of Directors during December 18, 2018 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	161	116	51%	39%	184	144	58%	52%	344	260	55%	45%
• Fully consolidated subsidiaries	86	90	28%	30%	128	128	28%	46%	214	218	34%	38%
Services other than certification of accounts												
• Parent company	21	57	7%	19%	7	7	2%	3%	28	64	4%	11%
• Fully consolidated subsidiaries	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
SUB-TOTAL STATUTORY AUDIT	267	263	86%	88%	319	279	100%	100%	586	542	93%	94%
OTHER WORK AND SERVICES DIRECTLY RELATED TO STATUTORY AUDIT												
Legal, tax, social	45	34	14%	12%	0	0	0%	0%	45	34	7%	6%
Others	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
SUB-TOTAL OTHER SERVICES	45	34	14%	12%	0	0	0%	0%	45	34	7%	6%
TOTAL	**312**	**298**	**100%**	**100%**	**319**	**279**	**100%**	**100%**	**631**	**577**	**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 financial year ended January 31, 2019 came to €303 thousand. Services other than certification of accounts correspond primarily to certification of costs statements issued for co-financed projects and of bank covenant calculation.

Note 13. Subsequent events

The Board of Directors, during April 12, 2019 meeting, analysed the project of change of closing date from January 31 to December 31. This decision will be proposed for validation to General Meeting on July 18, 2019. If the decision is validated, 2019 fiscal year will have 11 months.

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 and other documents provided to 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, 2019

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, 2019.

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, 2019 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, 2018 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, 2019, their net book value amounts to €44,152 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 €41,404 thousand at end January 2019. 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 obtained and reviewed sensitivity analyzes performed by Management.

Revenue recognition principles

Risk identified	The group ESI derives revenue from two primary sources: software licensing and related maintenance activity, and services activity. 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. In compliance with IFRS 15, ESI customer contracts have been analyzed in five stages in order to identify the component of the performance obligations and the price of each. For licensing revenue, two performance obligations have been identified: access to the license (the licensing itself) and the maintenance service. The part of revenue allocated to maintenance is determined as presented 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 paragraphs 1.1 and 4.1 of the notes to consolidated financial statements, which conformity with IFRS was previously assessed.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the Group's information in the management report of the Board of Directors.

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

We attest that the consolidated non-financial information statement required by Article L.225-102-1 of the French Commercial Code is presented in the Group's information given in the management report, being specified that, in accordance with Article L.823-10 of this Code, the information given in this statement have not been verified by us with respect to the fair presentation and consistency with the consolidated financial statements and has to be subject to a report by an independent third party.

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, 2019, PricewaterhouseCoopers Audit and Ernst & Young Audit were in the 10th year and 22nd year of total uninterrupted engagement (which is the 19th 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 to the Audit Committee a report 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) N° 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 22, 2019

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, 2019	January 31, 2018
REVENUE	E.1	86,023	83,884
Production held as inventory		83	(500)
Capitalized production		29,975	29,540
Operating subsidies		63	144
Reversals of depreciation, amortization, and provisions, expense transfers		2,578	1,435
Other income		890	1,311
OPERATING INCOME		119,611	115,814
Purchase and change in stock of goods		40	60
Other purchases and external expenses	E.3	62,674	60,506
Taxes and duties	E.4	1,363	1,384
Wages and salaries		15,881	14,767
Payroll taxes		7,467	6,971
Depreciation and amortization of non-current assets	E.5	28,661	26,984
Provisions	E.5	2,054	2,357
Other expenses	E.6	1,809	1,489
OPERATING EXPENSES		119,948	114,518
OPERATING RESULT		**(337)**	**1,296**
FINANCIAL RESULT	**E.7**	**2,595**	**2,004**
CURRENT RESULT BEFORE TAX		**2,258**	**3,300**
EXCEPTIONAL RESULT	**E.8**	**(2,138)**	**18**
Employee profit-sharing			
Income tax	F.5	(2,699)	(2,228)
NET PROFIT (LOSS)		**2,820**	**5,547**

5.2.2. Balance sheet

Assets

(in € thousands)	Notes	January 31, 2019 Gross value	January 31, 2019 Amortization/ Provisions	January 31, 2019 Net value	January 31, 2018 Net value
Intangible assets	C.1	89,265	(27,616)	61,649	58,818
Property, plant and equipment	C.2	11,007	(8,080)	2,928	1,599
Financial assets	C.3	68,789	(4,402)	64,387	64,235
NON-CURRENT ASSETS		169,062	(40,098)	128,964	124,652
Inventories		1,998		1,998	1,648
Down payments to suppliers		152		152	62
Trade receivables	C.4	63,517	(1,958)	61,559	57,070
Other receivables	C.4	10,120	(280)	9,840	8,756
Marketable securities (treasury shares)	C.5	4,163		4,163	4,512
Cash		2,365		2,365	5,005
CURRENT ASSETS		82,315	(2,238)	80,077	77,052
Prepaid expenses	C.6	1,550		1,550	2,558
Expenses capitalized, to be amortized	C.7	552		552	358
Foreign exchange gains and losses	C.7	890		890	1,576
TOTAL ASSETS		**254,369**	**(42,336)**	**212,033**	**206,196**

Liabilities

(in € thousands)	Notes	January 31, 2019	January 31, 2018
Share capital	D.2	18,054	18,049
Additional paid-in capital		38,350	38,314
Legal reserve		1,805	1,798
Retained earnings		38,088	32,549
Net profit (loss)		2,820	5,547
Regulated provisions		1,284	1,344
EQUITY	D.10	100,400	97,600
OTHER EQUITY	D.4	1,029	485
PROVISIONS FOR CONTINGENCIES AND CHARGES	D.5	5,452	5,561
Bank borrowings	D.7	34,386	37,251
Miscellaneous financial debt	D.8	2,500	2,500
FINANCIAL LIABILITIES		36,886	39,751
Down payments from clients	D.6	219	202
Trade payables		42,034	37,649
Tax payables and employee-related liabilities	D.9	8,500	6,992
Other liabilities	D.6 & D.10	14,992	16,058
OPERATING LIABILITIES AND MISCELLANEOUS DEBTS		65,745	60,900
Deferred income		630	724
Foreign exchange gains and losses		1,890	1,176
TOTAL LIABILITIES		**212,033**	**206,196**

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, 2019 amounts to €212,033 million and the income statement for the financial year shows net profit of €2.820 million.

The financial year corresponds to a 12-month period, from February 1, 2018 to January 31, 2019.

The financial statements were prepared in accordance with the French General Accounting Plan and generally accepted accounting principles (French GAAP 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

Note A.1. Significant events

Changes in scope of consolidation

- Dissolution of subsidiary CyDesign Labs Inc. at the end of October 2018.
- Acquisition on January 15 2019 of 51% of the shares of the subsidiaries ESI US Holdings, (100% of capital owed at January, 2019).

Refer to note C.3.

Financing

In December 2018, advance repayment of the previous syndicated loan (outstanding long-term balance of €25,6 million and €10 million revolving credit line) and signing of a new syndicated loan with a €30 million long-term part and €15 million revolving credit line of which €10 million confirmed.

Refer to note D.7.

Note B. Accounting principles and methods

The rules and methods remain unchanged from last year.

The general accounting conventions have been applied prudently, in accordance with the following assumptions:

- basic assumptions:
  - going concern,
  - consistency in accounting methods from one financial year to the next,
  - independence of financial years;
- general rules for preparing and presenting annual financial statements: the basic method used to measure accounting items is the historical cost method.

Note B.1. Use of estimates

Preparation of the financial statements requires the use of estimates and assumptions that may have an impact on the carrying amount of certain items in the balance sheet or income statement, as well as the information provided in selected notes. ESI Group carries out comprehensive reviews of these estimates and assessments to take account of past experience and other factors judged relevant with regard to economic conditions.

These estimates, assumptions and assessments are established on the basis of existing information or situations at the time the financial statements are drawn up, and which may not reflect future realities.

These estimates mainly concern provisions for contingencies and charges and assumptions used for the valuation of equity investments and selected intangible assets.

Note B.2. Intangible assets

Research and development costs

Internal research and development costs are recorded in the appropriate expense category; expenses corresponding to research and development performed by service providers within the Group or third parties are recorded as subcontracting expenses.

Internal expenses related to development work incurred during the financial year (wages, payroll taxes and environment-related costs) are capitalized and recognized as capitalized production.

Capitalization is performed on a per-project basis. Only projects meeting the six criteria for capitalization defined in the regulations on assets are capitalized as assets. Research projects or the portion of expenses not meeting all of the six criteria continue to be recognized as expenses in the income statement. Amortization starts upon release 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 starts 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 financial year ended January 31, 2019, 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 related to liquidity contract exceeds the current value as determined by the share price at the closing date.

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 financial 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, 2018	Increase	Decrease	January 31, 2019
Development costs	39,392	29,418	(25,930)	42,879
Patents, licenses, brands	26,005	333		26,338
Goodwill	1,028			1,028
Intangible assets in progress, development costs	16,175	442		16,617
Other intangible assets in progress	2,038	364		2,402
TOTAL GROSS VALUE	84,639	30,556	(25,930)	89,265
Development costs	(15,851)	(27,225)	25,930	(17,146)
Patents, licenses, brands	(9,898)	(500)		(10,397)
Goodwill	(73)			(73)
TOTAL AMORTIZATION, PROVISIONS	(25,822)	(27,724)	25,930	(27,616)
Development costs	23,541	2,193		25,733
Patents, licenses, brands	16,108	(167)		15,941
Goodwill	955			955
Intangible assets in progress, development costs	16,175	442		16,617
Other intangible assets in progress	2,038	364		2.402
TOTAL NET VALUE	**58,818**	**2,831**	**2,998**	**61,649**

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, 2018	Increase	Decrease[1]	January 31, 2019
Fixtures and fittings	2,500	1,148	(688)	2,961
Office furnishings and equipment	7,052	1,066	(98)	8,019
Other tangible non-current assets	27			27
TOTAL GROSS VALUE	9,579	2,214	(786)	11,007
Fixtures and fittings	(1,795)	(184)	688	(1,292)
Office furnishings and equipment	(6,159)	(700)	98	(6,762)
Other tangible non-current assets	(26)			(26)
TOTAL AMORTIZATION, PROVISIONS	(7,980)	(886)	786	(8,080)
Fixtures and fittings	705	964		1,669
Office furnishings and equipment	893	364		1,257
Other tangible non-current assets	1			1
TOTAL NET VALUE	**1,600**	**1,328**		**2,928**

(1) This column corresponds to scraping of fully amortized office fixtures and fittings because of an office move in July 2019.

Note C.3. Financial assets

(in € thousands)	January 31, 2018	Increase	Decrease	January 31, 2019
Equity investments	57,151	38	(2,188)	55,002
Receivables related to equity investments	11,532	887		12,419
Other financial assets[1]	1,532	395	(559)	1,368
TOTAL GROSS VALUE	70,215	1,320	(2,747)	68,789
Provisions for impairment of equity investments	(4,125)		1,517	(2,608)
Provisions for receivables related to equity investments	(1,852)		62	(1,790)
Provisions for depreciation of other financial assets	(4)			(4)
TOTAL AMORTIZATION, PROVISIONS	(5,981)		1,579	(4,402)
Equity investments	53,026		(632)	52,394
Receivables related to equity investments	9,680	949		10,629
Other investments	1,528		(165)	1,363
TOTAL NET VALUE	**64,234**	**949**	**(797)**	**64,387**

(1) This line primarily includes deposits and guarantees on rental properties for an amount of €598 thousand, factoring guarantee funds for an amount of €700 thousand, and treasury shares (liquidity contract) for an amount of €70 thousand.

Movements in equity investments (gross value)

(in € thousands)	January 31, 2018	Increase	Decrease	January 31, 2019
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	38		834
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.	1,050			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	10,708			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	0
Acquisition costs CyDesign Labs, Inc.	283		283	0
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	**57,151**	**38**	**2,188**	**55,002**

Movements of the year are related to acquisition of 51% of the shares of d'ESI US Holdings (currently 100% of the capital owned by ESI Group); and to dissolution of CyDesign Labs, Inc. (disposal of gross value of equity investment and of acquisition costs).

Movements in the provision for equity investments

(in € thousands)	January 31, 2018	Increase	Reversal	January 31, 2019
ESI-ATE Holdings Limited	1,737			1,737
Hong Kong ESI CO., Limited	119			119
Zhong Guo Co., Ltd	193			193
CyDesign Labs, Inc.	1,326		1,326	0
OpenCFD Limited	651		191	459
Cademce	100			100
TOTAL	**4,125**	**0**	**1,517**	**2,608**

As at January 31, 2019, following dissolution of the subsidiary CyDesign Labs, Inc., its related shares provision has been fully reversed, and those of the subsidiary OpenCFD has been adjusted according to the restated value of the shares(note B.4).

Receivables related to equity investments

	Gross value		Remuneration rate
(in € thousands)	January 31, 2019	January 31, 2018	
Loan ESI North America, Inc. ($9.7 million)	8,444	7,787	6-month Libor $ + 1% margin
Loan Hong Kong ESI ($1.124 million)[(1)]	978	902	6-month Libor $ + 1% margin
Loan ESI Group Hispania SL	1,020	1,020	Profit-sharing loan capped at 5%
Loan ESI ATE Holdings ($2.271 million)[(2)]	1,977	1,823	6-month Libor $ + 1% margin
TOTAL	**12,419**	**11,532**	

(1) This loan has been impaired by €0.699 million.
(2) This loan has been impaired by €1.091 million.

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

	At January 31, 2019			At January 31, 2018
(in € thousands)	Gross value	Due in 1 year or less	Due in between 1 and 5 years	Gross value
Loans granted to controlling interests	12,419		12,419	11,532
Treasury shares	70	70		147
Deposits and guarantees	1,298	284	1,014	1,386
Doubtful or disputed receivables	1,939	1,939		2,430
Trade receivables	12,978	12,978		10,600
Trade receivables with affiliate companies	48,600	48,600		46,478
Income tax receivables - advance payment	210	210		839
R&D tax credit receivable	3,189	3,189		2,679
Competitiveness and employment tax credit receivable	620	620		160
Other tax credits	443	443		396
Value added tax (VAT)	1,569	1,569		1,005
Co-financed projects	2,732	2,732		3,197
Trade payables debtors	742	742		540
Group and associates	486	486		2
Other receivables	130	130		67
Prepaid expenses	1,550	1,550		2,558
TOTAL	**88,974**	**75,541**	**13,433**	**84,017**

Details of provisions for depreciation of receivables

(in € thousands)	January 31, 2018	Increase	Reversal unused	Reversal used	January 31, 2019
Provisions for doubtful receivables	2,439	491	(433)	(539)	1,958
Provisions for other receivables	129	151			280
TOTAL	**2,569**	**642**	**(433)**	**(539)**	**2,238**

Note C.5. Treasury shares

Treasury shares in the balance sheet are classified in Financial assets for €70 thousand (liquidity contract) and in Marketable securities for €4.145 million.

Change in the number of treasury shares

	January 31, 2018	Increase	Decrease	January 31, 2019
TREASURY SHARES	**410,306**	**98,458**	**117,882**	**390,882**

The total value on the balance sheet is thus €4.215 million, compared to a market fair value of €10.143 million at January 31, 2019, for an unrealized gain of €5.929 million.

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

(in € thousands)	January 31, 2019	January 31, 2018
Prepaid rent	420	507
Maintenance prepaid expenses	493	1,347
Other prepaid expenses	638	704
Expenses related to syndicated loan set up[(1)]	552	358
TOTAL	**2,102**	**2,916**

(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, 2019	January 31, 2018
Trade receivables	473	1,082
Trade payables	416	493
TOTAL	**890**	**1,576**

Note C.8. Accrued income

(in € thousands)	January 31, 2019	January 31, 2018
Receivables to be invoiced	5,755	4,010
Receivables to be invoiced from affiliate companies	1,522	1,877
Vendor credit notes to be issued	123	259
Group vendors credit notes to be issued	619	275
Miscellaneous income	0	39
TOTAL	**8,050**	**6,460**

Note D. Liability details

Note D.1. Equity

The main movements during the financial year are summarized in the table below:

(in € thousands)	January 31, 2018	Allocation of 2017 profit	2018 net profit	Other	January 31, 2019
Capital	18,049			4	18,054
Share premium	25,782			36	25,818
ESI Software merger premium	9,677				9,677
Systus merger premium	2,854				2,854
Legal reserve	1,798	7			1,805
Retained earnings	30,927	5,540			38,088
Net profit for the year	5,547	(5,547)	2,820		2,820
Regulated provisions	1,344			(59)	1,285
TOTAL	**97,600**	**-**	**2,820**	**(19)**	**100,400**

Movements in the "Other" column reflect:

- the capital increase with the associated share issuance premium following the exercise of 1,450 share subscription options during the financial year;
- a net reversal on regulated provisions for €59 thousand, of which an allowance of €224 thousand and a reversal of €283 thousand of amortization of the acquisition costs of the shares of subsidiary CyDesign Labs Inc. dissolved in 2018.

Note D.2. Legal capital

	Number of shares		
	At the end of the financial year	Created during the financial year	Repaid during the financial year
Common shares (par value of €3)	6,016,442	1,450	-
O/w preferred shares (double voting rights)	2,245,888		-

The capital increase is attributable to the exercise of share subscription options for 1,450 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	Exercise price	Number of existing stock options/shares at January 31, 2019	Limit year for exercising options
Plan 10 (GM 2012)	02/01/2013		150,850	62,300	27.82	39,300	2021
Plan 10 *Bis* (GM 2012)	02/07/2014		11,000		24.42	375	2022
Plan 10 *Ter* (GM 2012)	02/01/2015		15,000		21.66		2025
Plan 10 *Quater* (GM 2012)	07/22/2015		3,150		27.17	2,100	2025
	Total	**180,000**	**180,000**	**62,300**		41,775	
Plan 15 (AG 2013)	02/01/2015	294,538	20,000	20,000	21.66		2025
Plan 17 (GM 2014)	07/22/2015		7,350			4,900	2023
Plan 17 *Bis* (GM 2014)	03/11/2016		10,000		23.35		2026
Plan 17 *Ter* (GM 2014)	05/05/2017		18,175		27.92	16,300	2025
Plan 17 *Quater* (GM 2014)	05/05/2017		1,875	1,875	50.92		2025
	Total	**180,000**	**37,400**	**1,875**		21,200	
Plan 19 (GM 2017)	07/18/2018		43,950	32,963	42.97	42,700	2026
Authorization given at the GM of July 2017		229,600					
TOTAL STOCK-OPTIONS		952,291	281,35	117,138		105,675	
Plan 6 (GM 2016)	07/21/2016		25,000			8,332	2020
Plan 7 (GM 2016)	12/23/2016		2,275				2021
Plan 8 (GM 2016)	08/01/2017	60,000	9,000			9,000	2021
Plan 9 (GM 2018)	07/18/2018		10,619	7,963		10,619	2020
Plan 9 *Bis* (GM 2018)	07/18/2018		2,441			2,324	2020
Plan 9 *Ter* (GM 2018)	07/18/2018	60,000	15,500			15,500	2022
TOTAL FREE SHARES		120,000	64,833	7,963		45,773	
TOTAL STOCK-OPTIONS AND FREE SHARES		**1,072,291**	**346,183**	**125,101**		**151,448**	

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

Note D.4. Conditional advances

(in € thousands)	January 31, 2019	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2018
Advance on Ademe financing agreement	772			772	402
Bpifrance advance	257		257		83
TOTAL	**1,029**	**0**	**257**	**772**	**485**

Note D.5. Provisions for contingencies and charges

(in € thousands)	January 31, 2018	Increase	Reversal used	January 31, 2019
Foreign exchange gains and losses (Note C.7)	1,540	890	(1,540)	890
Provisions for contingencies and charges (operating result)	28	165		193
Provision for retirement obligations	3,993	376		4,369
TOTAL	**5,561**	**1,431**	**(1,540)**	**5,452**

Variation mainly correspond to the impact of changes in currency rates. Provisions for operating risks and expenses correspond to social risks.

Provision allowance for retirement obligations breaks down as follows:

- €322 thousand of operating allowance, o/w €271 thousand in costs for services rendered, €30 thousand in actuarial gains and losses and €81 thousand for transfers from other Group entities;
- €54 thousand of financial allowance corresponding to interest expenses.

Actuarial assumptions for retirement obligations

	January 31, 2019	January 31, 2018
Discount rates	1.45%	1.40%
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, 2019	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2018
Banks borrowings (D.7)	34,386	3,611	16,200	14,575	37,251
Miscellaneous financial debt (D.8)	2,500	2,500			2,633
Trade payables	7,293	7,293			7,512
Group trade payables	34,690	34,690			30,137
Personnel and related receivables (D.9)	4,361	4,361			2,583
Payroll taxes (D.9)	1,652	1,652			2,268
Value-added tax (D.9)	1,999	1,999			1,662
Other tax expense (D.9)	489	489			479
Liabilities to fixed asset suppliers	51	51			4
Other operating payables - Group and associates (D.10)	12,382	13,382			13,968
Other operating payables - out of Group (D.10)	2,630	2,630			2,085
Deferred income	630	630			724
TOTAL	**103,042**	**72,267**	**16,200**	**14,575**	**101,375**

Note D.7. Bank borrowings

At January 31, 2019, bank borrowings stand at €34.386 million and break down as follows:

- €30,000 thousand related to the long-term syndicated lines of credit, of which 2 million that needs to be repaid in 2019;
- €1 million in drawdowns from the revolving credit line;
- €1.8 million in long term borrowings from Bpifrance, including €600 thousand due in 2019;
- €1,575 thousand corresponding to a loan signed in October 2018 to finance the cost of moving Rungis' offices in 2018 – due October 2023;
- €11 thousand in accrued interest on borrowings.

ESI Group's main source of financing is the syndicated loan. In December 2018, the previous syndicated loan signed in November 2015 was reimbursed by anticipation (long-term outstanding balance of €25.6 million and use of the revolving loan for €10 million) and a new syndicated loan signed with a pool of seven banks.

This new syndicated loan consists of a long-term part of €30 million and a revolving loan of €15 million, of which €10 million has been confirmed. The long-term part will be gradually reimbursed annually on April 30 each year until April 30, 2025. The syndicated loan is remunerated based on the Euribor rate and a margin of 2%, 2.25% or 2.5% depending on the level of the Net financial debt/EBITDA ratio related to previous year financial statements. The margin initially used after signature of the syndicated loan is 2.5%.

At 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, 2019	Up to 1 year	1 to 5 years	More than 5 years	January 31, 2018
Promissory note	2,500	2,500			2,500
TOTAL	**2,500**	**2,500**			**2,500**

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

(in € thousands)	January 31, 2019	January 31, 2018
Provision for paid leave, including payroll taxes	2,557	2,518
Provision for bonuses to be paid to employees, including payroll taxes	1,804	1,177
Other payroll taxes	1,652	1,044
VAT collected	1,999	1,662
Other taxes	489	591
TOTAL	**8,500**	**6,991**

Note D.10. Other operating payables

(in € thousands)	January 31, 2018	Increase	Decrease	January 31, 2019
Creditor trade receivables	272	40	(272)	40
Subsidiaries current account	13,968	645	(2,252)	12,362
Advances on co-financed projects	1,752	784		2,536
Other liabilities	66	54	(66)	54
TOTAL	**16,058**	**1,524**	**(2,590)**	**14,992**

Note D.11. Foreign exchange gains and losses

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

(in € thousands)	January 31, 2019	January 31, 2018
Trade receivables	359	205
Trade payables	229	556
Intercompany receivables	1,302	415
TOTAL	**1,890**	**1,176**

Note D.12. Accrued expenses

(in € thousands)	January 31, 2019	January 31, 2018
Borrowings and financial debts	11	165
Trade payables	12,195	13,096
Provision for paid leave, including payroll taxes	2,557	2,518
Provision for bonuses to be paid to employees, including payroll taxes	1,804	1,177
Other tax expenses	182	169
Other liabilities (advances on co-financed projects)	2,536	1,752
Other liabilities	2	0
TOTAL	**19,287**	**16,876**

Note E. Details on income statement

Note E.1. Revenue

Breakdown by type:

(in € thousands)	January 31, 2019	January 31, 2018
Software licenses	15,531	15,449
Sub-contracting, consulting and other income	2,958	2,575
Royalties received from Group distribution subsidiaries	58,583	56,150
Sub-contracting, consulting and other income - Group	3,831	5,376
Income from related activities - Group	1,855	1,544
Management fees Group	3,264	4,790
TOTAL	**86,023**	**83,884**

Breakdown by geographic area:

(in € thousands)	January 31, 2019	January 31, 2018
France	13,449	11,607
Europe (except France)	27,105	27,715
Americas	13,746	13,082
Asia	31,723	31,480
TOTAL	**86,023**	**83,884**

Note E.2. Other income from operations

(in € thousands)	January 31, 2019	January 31, 2018
Production held as inventory	83	(500)
Capitalized production	29,975	29,540
Reversal on depreciation and amortization	973	395
Reversal on change provision on trade receivables and payables	1,576	1,044
Foreign exchange gains on trade receivables and payables	889	1,310
Other income	93	141
TOTAL OTHER INCOME	**33,588**	**31,930**

Note E.3. Other purchases and external expenses

(in € thousands)	January 31, 2019	January 31, 2018
Engineering studies and other services	8,224	8,104
Engineering studies and other services – Group	17,824	17,300
Research and development costs – Group	20,978	20,715
Materials and supplies	338	270
Leases and rental expenses	4,473	3,845
Maintenance and repairs	1,953	1,667
Insurance	339	302
Payments to intermediaries and fees	2,153	2,242
Royalties on third-party products and sales commissions	2,286	1,721
Advertising, external relations	962	918
Travel expenses	2,014	2,218
Postage, telecommunications expenses	428	491
Miscellaneous	701	712
TOTAL	**62,674**	**60,506**

Note E.4. Income tax expense

(in € thousands)	January 31, 2019	January 31, 2018
Corporate Value-Added Contribution (CVAE)	697	734
Corporate Real Estate Contribution (CFE)	115	127
Apprenticeship, continuing education and construction-related taxes	314	313
Other taxes	236	210
TOTAL	**1,363**	**1,384**

Note E.5. Operating allowances

(in € thousands)	January 31, 2019	January 31, 2018
Amortization allowance for development costs	27,225	25,391
Amortization allowance for other intangible assets	500	661
Amortization allowance for tangible assets	856	857
Amortization allowance for capitalized expenses to be amortized	80	75
Provision for impairment of trade receivables	491	435
Provision for impairment of other assets	150	
Provision for retirement obligations	322	382
Provision for change on trade receivables and payables	926	1,540
Provision for contingencies and charges	165	0
TOTAL	**30,715**	**29,341**

Note E.6. Other operating expenses

(in € thousands)	January 31, 2019	January 31, 2018
Royalties	56	58
Directors' fees	169	138
Foreign exchange losses on trade receivables and payables	1,148	1,291
Loss on trades receivables	433	0
Miscellaneous expenses	3	2
TOTAL	**1,809**	**1,489**

Note E.7. Financial income

(in € thousands)	January 31, 2019	January 31, 2018
Foreign exchange gain/(loss) realized	144	(544)
Interest on borrowings	(824)	(840)
Interest on subsidiaries current account	39	86
Provision for retirement obligations	(55)	(61)
Provision for impairment equity investments	0	(456)
Reversal provision for investments (C3)	1,517	0
AVIC ESI dividend	18	0
Mecas ESI s.r.o. dividend	1,690	0
ESI Japan, Ltd dividend	0	3,921
Other financial income/(expenses)	67	(102)
TOTAL	**2,595**	**(2,004)**

Note E.8. Exceptional income

(in € thousands)	January 31, 2019	January 31, 2018
Profit or loss on movements of treasury shares	(211)	(61)
Accelerated capital allowances	(224)	(260)
Exceptionnal amortization of set up costs of the previous syndicated loan	(291)	0
Exceptionnal amortization	(30)	(185)
Dissolution result of subsidiary CyDesign Labs, Inc.	(1,285)	0
Reversal of exceptional accrual	0	105
Income on payment through treasury shares for acquisition of Scilab Enterprises	0	468
Presto additional payment	(73)	(71)
Miscellaneous	(24)	22
TOTAL	**(2,137)**	**18**

The dissolution result of subsidiary CyDesign Labs Inc. for €1,285 thousand is reconciliated with to the reversal of provision of this same subsidiary for an amount of €1,326 thousand which appears in financial result, this for a total net impact of €41 thousand.

Note F. Other information

Note F.1. Average headcount

(in full-time equivalent)	January 31, 2019	January 31, 2018
Executives	228	224
Office personnel	18	19
TOTAL	**246**	**243**

Note F.2. Compensation paid to executive corporate officers

Total compensation paid to ESI Group's three executive corporate officers are as follows:

(in € thousands)	January 31, 2019	January 31, 2018
Wages	393	471
Benefits in kind	12	45
Directors' fees	16	16
Compensation paid by controlled companies	383	428
Fringe benefits paid by controlled companies	148	152
TOTAL	**952**	**1,113**

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	1,301	7,515
Movable property rentals	1,639	455
TOTAL	**2,940**	**7,973**

Future lease commitments correspond to the outstanding amounts due on the Group's main lease and rental contracts until the contractual next maturity date.

Financial commitments

As part of the credit agreement dated December 20, 2018, ESI Group granted a pledge of 99.98% of the shares of Engineering System International, 100% of the shares of the subsidiary ESI Software Germany, and 96% of the shares of the subsidiary ESI ITI GmbH.

As long as it owes an obligation under the agreement or the security documents, the borrower undertakes, under prepayment constraint, to comply with the ratio of consolidated net financial debt divided by consolidated EBITDA, the thresholds to be respected over the term of the syndicated loan agreement are gradually decreasing. As at January 31, 2019, the threshold to be respected is 3.5%. At January 31, 2019, on the basis of the annual consolidated financial statements certified by the Statutory Auditors, the Group was in compliance with this ratio.

In terms of managing its exposure to changes in exchange rates and interest rates, ESI Group has subscribed to the following financial instruments. Results at maturity are recognised in financial income for interest rate instruments and in operating income for foreign exchange instruments:

- interest rate instruments:
  - three swaps of €2 million at January 31, 2019, where ESI Group receives a one-month Euribor (with a 0% floor) and pays a fixed rate of 0.16%, 0.18% and 0.19% respectively,
  - a swap of €0.5 million at January 31, 2019, where ESI Group receives Euribor 1 month (with a floor at 0%) and pays a fixed rate of 0.30%,
  - at January 31, 2019, the market value of these instruments was -€12 thousand;
- foreign exchange instruments:
  - in order to hedge foreign currency cash flows between the Group's parent company and its subsidiaries, ESI Group may at any time acquire currency options and any other form of currency contract. The instruments in place during the year ended January 31, 2019 were the Japanese yen (tunnels), the Korean won (non-delivery forward) and the Indian rupee (non-delivery forward). As at January 31, 2019, all financial instruments had matured.

Pledges

At January 31, 2019, 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)	2,258	(899)(1)	1,359	(383)	1,875
Exceptional income	(2,137)	1,314	(823)		(2,137)
Competitiveness and employment tax credit				149	149
French R&D tax credit				2,933	2,933
TAX INCOME (LOSS)	**121**	**415**	**536**	**2,699**	**2,820**

(1) The retreatment of € 899 thousand corresponds mostly to dividend received from Mecas s.r.o. for €1,690 thousand and the liquidation result of CyDesign Labs, Inc. for €1,285 thousand.

The tax expense of €383 thousand at January 31, 2019, in a negative tax result context, corresponds to losses on foreign tax certificates that cannot be used for payment of income tax during this financial year.

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

(in € thousands)	January 31, 2019
Special social security contribution (*contribution sociale de solidarité*)	109
Translation differences	1,890
Interest	879
TOTAL TEMPORARY DIFFERENCES	**2,879**
NET DECREASE IN FUTURE INCOME TAX LIABILITIES (TAX RATE OF 33.33%)	**960**

Increases and decreases in future income tax liabilities were measured based on the statutory tax rate for the French income tax. They result from time difference between tax and accounting treatment of income and expenses.

Note F.7. ESI Group, consolidating company

ESI Group is the consolidating holding company of the Group of the same name.

Note F.8. Table of controlled entities and affiliates (at January 31, 2019)

(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		Outstanding loans and advances granted by the Company or by the subsidiary	Total guarantees granted by the Company	Revenues, after tax, for the last financial year (converted at the average exchange rate)	Profit or loss for the last financial year (covered at the average exchange rate)	Dividends received by the Company during the financial year
					Gross	Net					
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	2,691	100.0	458	458	(1,861)		20,216	634	
STRACO	France	499	2,994	97.7	1,789	1,789	(515)		0	52	
ESI Japan, Ltd.	Japan	99	2,031	97.0	75	75			25,182	359	
Hankook ESI Co., Ltd.	South Korea	1,155	(2,552)	98.8	941	941			6,550	(275)	
ESI North America, Inc.	USA	0	(1,733)	100.0	3,726	3,726	8,444		21,799	177	
ESI Group Hispania s.l.	Spain	100	(692)	100.0	100	100	1,020		4,335	61	
Mecas ESI s.r.o.	Czech Republic	16	2	95.0	912	912	(821)		7,938	472	1,690
ESI UK Limited	United Kingdom	114	1,071	100.0	164	164			3,695	173	
ESI US R&D, Inc.	USA	194	1,379	74.0	111	111			9,694	224	
Calcom ESI SA	Switzerland	83	344	98.5	2,678	2,678			3,654	261	
Zhong Guo Co., Ltd	China	0	207	100.0	193	0			0	(4)	
ESI Software (India) Private Ltd	India	1	5,067	100.0	2	2			10,625	1,079	
Hong Kong ESI Co., Limited	China	1	(816)	100.0	119	0	978		0	0	
ESI-ATE Holdings Limited	China	10	(1,197)	100.0	1,737	0	1,977		0	0	
ESI Italia s.r.l.	Italy	500	416	100.0	1,050	1,050			4,305	(33)	
ESI South America Comércio e Serviços de Informática, Ltda	Brazil	9	101	95.0	6	6			695	8	
ESI Services Tunisia	Tunisia	62	784	95.0	242	242			475	228	
ESI Group Beijing Co., Ltd	China	650	1,303	100.0	543	543			4,200	499	
ESI Software Germany GmbH	Germany	517	6,087	100.0	10,708	10,708			8,691	764	
Efield AB	Sweden	10	577	100.0	446	446			1,653	52	
OpenCFD Limited	United Kingdom	0	(111)	100.0	2,351	1,892	(120)		1,350	(89)	
ESI Services Vietnam Co., Ltd	Vietnam	73	71	100.0	124	124			123	(49)	
CIVITEC	France	1,125	(1,025)	80.0	900	900	484		134	(581)	
ITI GmbH	Germany	26	1,190	96.0	17,952	17,952	(1,139)		5,976	(180)	
Mineset Inc.	USA	0	270	100	4,017	4,017			1,717	180	
SAS Scilab Enterprises	France	424	(786)	100	550	550	(333)		573	(77)	
ESI US Holding, Inc.	USA	674	(559)	100.0	834	834			0	0	
2. 10-50% owned subsidiaries											
JV AECC-ESI	China	1,275	672	45.0	576	576			5,733	236	

The data at January 31, 2019 of the table of controlled entities and affiliates is a non audited data.

Note F.9. Subsequent events

The Board of Directors, during April 12, 2019 meeting, analysed the project of change of closing date from January 31 to December 31. This decision will be proposed for validation to General Meeting on July 18, 2019. If the decision is validated, 2019 fiscal year will have 11 months.

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, 2019

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, 2019.

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, 2019 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, 2018 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 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, 2019 their net book value amounts to €25,733 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, 2019, net book value of equity investments amounts to €52,394 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.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

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

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

We attest the fair presentation and the consistency with the financial statements of the information relating to the payment terms required by Article D.441-4 of the French Commercial Code.

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 favour, 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 takeover bid or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code (*Code de commerce*), we have agreed this information to the source documents communicated to us. Based on these procedures, 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, 2019, PricewaterhouseCoopers Audit and Ernst & Young Audit were in the 10th year and 22nd year of total uninterrupted engagement (which is the 19th 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.

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 to the Audit Committee a report 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) N° 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 22, 2019

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 financial year ended January 31, 2019
2. Approval of the consolidated financial statements for the financial year ended January 31, 2019
3. Allocation of net profit for the year
4. Special report of the Statutory Auditors on the regulated agreements and commitments and approval of the new agreements referred to in Article L. 225-38 of the French Commercial Code
5. Reappointment of Mr. Alain de Rouvray
6. Reappointment of Mr. Éric d'Hotelans
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 of the Board of Directors for 2019 financial year
8. 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 Chief Executive Officer for 2019 financial year
9. 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 Chief Operating Officers for 2019 financial year
10. Approval of the components of the total compensation payable or allocated to Mr. Alain de Rouvray, Chief Executive Officer, for the financial year ended on January 31, 2019
11. Approval of the components of the total compensation payable or allocated to Mr. Vincent Chaillou, Chief Operating Officer, for the financial year ended on January 31, 2019
12. Approval of the components of the total compensation payable or allocated to Mr. Christopher St John, Chief Operating Officer, for the financial year ended on January 31, 2019
13. Determination of the compensation paid to the members of the Board of Directors (Attendance fees)
14. 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

15. Delegation of authority to the Board of Directors for the purpose of increasing the capital *via* the issue of shares of common stock or of any securities convertible into equity, with preferential subscription rights
16. Delegation of authority to the Board of Directors for the purpose of increasing the capital *via* the issue of shares of common stock or of any securities convertible into equity, through public offerings and without preferential subscription rights
17. Delegation of authority to the Board of Directors for the purpose of increasing the issue amount in the event of over-demand
18. Delegation of authority to the Board of Directors for the purpose of increasing the capital by the capitalization of premiums, reserves, profits or otherwise
19. Delegation of authority to the Board of Directors for the purpose of issuing shares without preferential subscription rights as compensation for contributions of shares or share equivalents granted to the Company as part of a contribution in kind
20. Delegation of authority to the Board of Directors for the purpose of increasing the capital without preferential subscription rights through private placement
21. Authorization given to the Board of Directors to increase the capital by issuing shares reserved for employees enrolled in the employee savings plan
22. Amendment to the articles of association – Article 22 change of financial year closing date
23. Amendment to the articles of association – Additional paragraph under Article 9B related to obligations to declare crossing thresholds

Joint decisions

24. 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 financial year ended January 31, 2019

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 financial year ended January 31, 2019, showing a profit of €2,819,816.34.

The General Meeting, 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 financial year ended January 31, 2019, approves the financial statements and balance sheet, as presented, showing a profit of €2,819,816.34.

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 €249,786.

Second resolution

Approval of the consolidated financial statements for the financial year ended January 31, 2019

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 financial year ended January 31, 2019 showing a net profit of €3,334,237.

The General Meeting, 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, 2019, approves these financial statements as presented, resulting in a net profit of €3,334,237.

Third resolution

Allocation of net profit for the year

Statement of reasons

The General Meeting is requested to allocate the profit of €2,819,816.34 as follows:

- €435 to the legal reserve;
- €2,819,381.34 to retained earnings.

Following this allocation, the balance of the legal reserve will stand at €1,805,367.60.

Following this allocation, retained earnings will stand at €40,907,521.88.

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

The General Meeting, acknowledging that the net profit for the year ended January 31, 2019 stands at €2,819,816.34, decides, upon the Board of Directors' recommendation, to allocate this profit as follows:

Current position:

• net profit for the year:	€2,819,816.34
• retained earnings:	€38,088,140.54
• total to be allocated:	€2,819,816.34

Allocated as follows:

- €435 to the legal reserve;
- €2,819,816.34 to retained earnings.

Following this allocation, the balance of the legal reserve will stand at €1,805,367.60.

Following this allocation, retained earnings will stand at €40,907,521.88.

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

Fourth resolution

Special report of the Statutory Auditors on the regulated agreements and commitments and approval of the new 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 financial year ended on January 31, 2019 the following agreements gave rise to the procedure provided for in Articles L. 225-38 *et seq.* of the French Commercial Code.

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 2.6 of the 2018 Registration Document and will be submitted for approval of the General Meeting to be held on July 18, 2019.

Ruling on the special report of the Statutory Auditors on the regulated agreements and commitments that were presented to it, the General Meeting approves the new agreements entered into during the year ended January 31, 2019 mentioned in the special report pursuant to Article L. 225-38 of the French Commercial Code, approves the agreements mentioned therein.

Fifth resolution

Reappointment of Mr. Alain de Rouvray

Statement of reasons

As the directorship of Mr. Alain de Rouvray expires at the end of this General Meeting, the shareholders are requested to renew his directorship for a term of four years, until the General Meeting to be convened in 2023 to approve the financial statements for the 2022 financial year.

The Board of Directors reminds the General Meeting that The Board of Directors recalls that Alain de Rouvray has been Chairman and Chief Executive Officer of the Company since its creation in 1991 and until January 31, 2019. Since February 1, 2019, he is exclusively acting as Chairman of the Board of Directors. His biography is presented in the report of the Board of Directors on corporate governance in Section 2.3.2 of the 2018 Registration Document.

The General Meeting, having reviewed the report of the Board of Directors and noting that the term of office of Mr. Alain de Rouvray expires at the end of the General Meeting, decides to renew his directorship for a term of four years, expiring at the end of the General Meeting to be convened in 2023 to approve the financial statements for the 2022 financial year.

Sixth resolution

Reappointment of Mr. Éric d'Hotelans

Statement of reasons

As the directorship of Mr. Éric d'Hotelans expires at the end of this General Meeting, the shareholders are requested to renew his directorship for a term of four years, until the General Meeting to be convened in 2023 to approve the financial statements for the 2022 financial year.

The Board of Directors reminds the General Meeting that Mr. Éric d'Hotelans has been an independent director since 2008. He is currently Chair of the Compensation, Committee. His biography is presented in the report of the Board of Directors on corporate governance in Section 2.3.2 of the 2018 Registration Document.

The General Meeting, having reviewed the report of the Board of Directors and noting that the term of office of Mr. Éric d'Hotelans expires at the end of the General Meeting, resolves to renew his directorship for a term of four years, expiring at the end of the General Meeting to be convened in 2023 to approve the financial statements for the 2022 financial year.

Seventh, eighth and ninth resolutions

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 of the Board of Directors, Chief Executive Officer and Chief Operating Officers for 2019 financial year

Statement of reasons

In accordance with Article L. 225-37-2 of the French Commercial Code, the General Meeting is requested every year 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 Chairman of the Board of Directors, Chief Executive Officer and the Chief Operating Officers, in respect to their mandate for 2019 financial year.

These principles and criteria are presented in the report of the Board of Directors on corporate governance in Section 2.4.1.2 and 2.4.2.2 of the 2018 Registration Document.

Resolution No. 7

The General Meeting, pursuant to Article L. 225-37-2 of the French Commercial Code (paragraph 1), approves the principles and criteria for the determination, distribution and allocation of fixed, variable components and exceptional components of total compensation and benefits of any kind, attributable to the Chairman of the Board of Directors for 2019 financial year, as presented in the corporate governance report of the Board of Directors referred to in Article L. 225-37 of the French Commercial Code and set out in the 2018 Registration Document under Section 2.4.1.2.

Resolution No. 8

The General Meeting, pursuant to Article L. 225-37-2 of the French Commercial Code (paragraph 1), approves the principles and criteria for the determination, distribution and allocation of fixed, variable components and exceptional components of total compensation and benefits of any kind, attributable to the Chief Executive Officer for 2019 financial year, as presented in the corporate governance report of the Board of Directors referred to in Article L. 225-37 of the French Commercial Code and set out in the 2018 Registration Document under Section 2.4.2.2.

Resolution No. 9

The General Meeting, pursuant to Article L. 225-37-2 of the French Commercial Code (paragraph 1), approves the principles and criteria for the determination, distribution and allocation of fixed, variable components and exceptional components of total compensation and benefits of any kind, attributable to the Chief Operating Officers for 2019 financial year, as presented in the corporate governance report of the Board of Directors referred to in Article L. 225-37 of the French Commercial Code and set out in the 2018 Registration Document under Section 2.4.2.2.

Tenth, eleventh and twelfth resolutions

Approval of the fixed, variable and exceptional components of the total compensation payable or allocated to the Chairman of the Board of Directors, Chief Executive Officer and Chief Operating Officers for the financial year ended on January 2019

Statement of reasons

In accordance with Article L. 225-100-II of the French Commercial Code, the General Meeting is requested every year to approve the fixed, variable and exceptional components of the total compensation and benefits of all kinds payable or allocated to the Chairman of the Board of Directors, Chief Executive Officer and Chief Operating Officers in respect to their mandate for the for the financial year ended on January 2019.

These components of the compensation are presented in the report of the Board of Directors on corporate governance in Section 2.4.2.1 of the 2018 Registration Document, including in particular a summary table under Section 2.4.2.1.12.

Tenth resolution

Approval of the components of the total compensation payable or allocated to Mr. Alain de Rouvray, Chief Executive Officer, for the financial year ended on January 31, 2019

The General Meeting, in accordance with 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 financial year ended on January 31, 2019 as set out in the report of the Board of Directors on corporate governance pursuant to Article L. 225-37 of the French Commercial Code and presented in the 2018 Registration Document in Section 2.4.2.1).

Eleventh resolution

Approval of the components of the total compensation payable or allocated to Mr. Vincent Chaillou, Chief Operating Officer, for the financial year ended on January 31, 2019

The General Meeting, in accordance with 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 financial year ended on January 31, 2019, as set out in the report of the Board of Directors on corporate governance pursuant to Article L. 225-37 of the French Commercial Code and presented in the 2018 Registration Document in Section 2.4.2.1).

Twelfth resolution

Approval of the components of the total compensation payable or allocated to Mr. Christopher St John, Chief Operating Officer, for the financial year ended on January 31, 2019

The General Meeting, in accordance with 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 of the Board of Directors on corporate governance pursuant to Article L. 225-37 of the French Commercial Code, and presented in the 2018 Registration Document in Section 2.4.2.1).

Thirteenth resolution

Determination of the compensation paid to the members of the Board of Directors (Attendance fees)

Statement of reasons

The General Meeting is requested to set the total annual amount of Attendance fees allocated to members of the Board of Directors for the 2019 financial year at €280,000 (*vs.* €180,000). This increase is part of the remuneration policy of the Directors as presented in the report of the Board of Directors on corporate governance in Section 2.4.1.2 of the 2018 Registration Document. It is particularly related to the compensation attributable to the Chairman of the Board of Directors following the dissociation in corporate governance effective since February 1, 2019 (see Section 2.2.2 of the 2018 Reference Document).

The General Meeting decides to set the compensation paid to the members of the Board of Directors in the form of attendance fees at €280,000 for the 2019 financial year.

The Board will freely distribute this amount among its members.

Fourteenth resolution

Authorization to be granted to the Board of Directors for the Company to buy back its own shares

Statement of reasons

As the existing authorization expires in January 2020, 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, 2019.

It is proposed to set the maximum purchase price at €60 (sixty) 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, 6.5% as at January 31, 2019. The Company will not be allowed to pay out more than €13,000,000 (thirteen million) 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, 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, 2019, 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 €60 (sixty);
3. decides to fix the maximum amount that the Company may spend within the framework of this buy-back program at €13,000,000 (thirteen million);
4. acknowledges that this authorization shall render ineffective the previous authorization granted by the twelfth resolution of the Combined General Meeting of July 18, 2018 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

Fifteenth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the capital via the issue of shares of common stock or of any securities convertible into equity, with preferential subscription rights

Statement of reasons

As the existing authorization expires in August 2019, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to increase capital *via* the issue of shares of common stock or of any securities convertible into equity, with preferential subscription rights. This authorization will be granted for a new period of 26 months starting with the General Meeting of July 18, 2019.

Shareholders will have preferential subscription rights, in proportion to the number of their shares, to the securities issued in accordance with this resolution. The Board of Directors will have the option of granting the Shareholders the right to apply for a number of securities in excess of the number of shares for which they can apply as of right, in proportion to their subscription rights and according to their request.

The nominal amount of any immediate or future capital increases may not exceed €20,000,000 or its equivalent in any other currency. All capital increases that may be carried out pursuant to the authorizations granted to the Board of Directors by resolutions 15 to 20 submitted at the General Meeting will be deducted from this limit.

The General Meeting, having reviewed the Report of the Board of Directors and the special report of the Statutory Auditors, and in accordance with Articles L. 225-129, L. 225-129-1, L. 225-129-2 *et seq.* and L. 228-92 *et seq.* of the French Commercial Code:

- Authorizes the Board of Directors to issue, on one or more occasions, common stock of the Company or any other securities, including stand-alone share subscription warrants with or without consideration, carrying immediate or deferred rights to common stock of the Company. The Board of Directors will have full discretionary powers to determine the amount, terms and timing of this issue, which may be carried out in France or abroad and within the framework of this resolution, and may be denominated in euros, foreign currency or any monetary unit determined by reference to a basket of currencies.

  Securities may be subscribed for in cash or by offsetting debt.

  The issue price of each share may not be less than the par value.

  This authorization granted to the Board of Directors is valid for a period of 26 months as from the date of this Meeting;
- Decides that the total nominal amount of immediate or future capital increases that may be carried out may not exceed €20,000,000 or its equivalent in any other currency, plus the amount of any additional shares issued to maintain the rights of holders of securities giving access to shares, in line with legal provisions. All capital increases that may be carried out pursuant to the authorizations granted to the Board of Directors by resolutions 15 to 20 submitted at the General Meeting will be deducted from this limit. Furthermore, the total nominal amount of debt instruments with immediate or deferred access to the capital that may be issued in application of this authorization may not exceed €300,000,000 or its equivalent in any other currency;
- Decides that existing Shareholders will have a preferential right to subscribe for the securities issued pursuant to this authorization, in proportion to their existing holdings.

  The Board of Directors will have the option of granting the Shareholders the right to apply for a number of securities in excess of the number of shares for which they can apply as of right, in proportion to their subscription rights and according to their request;
- Decides that if the applications for shares as of right and, if applicable, applications for excess shares, do not cover the entire issue, the Board of Directors may use one or more of the options below in the order it deems fit:
  - limit the amount of the issue to the subscriptions received, provided that at least 75% of the issue is taken up,
  - freely distribute all or part of the unsubscribed securities,
  - float all or part of the unsubscribed securities;
- Notes that, as required, this authorization automatically waives Shareholders' preferential subscription rights to the shares to which these securities entitle them in favor of holders of securities issued in application of this resolution and giving deferred access to Company shares that may be issued;
- Decides that this authorization also covers the authorization granted to the Board of Directors to amend the articles of association as necessary;
- Acknowledges that this authorization cancels and replaces any previous authorizations with the same purpose.

Sixteenth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the capital via the issue of shares of common stock or of any securities convertible into equity, through public offerings and without preferential subscription rights

Statement of reasons

As the existing authorization expires in August 2019, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to increase capital *via* the issue of shares of common stock or of any securities convertible into equity, through public offerings and without preferential subscription rights. This authorization will be granted for a new period of 26 months starting with the General Meeting of July 18, 2019.

Shareholders' preferential subscription rights to securities to be issued under this authorization will be cancelled. The Board of Directors will have the option of granting Shareholders a priority subscription right to shares as of right and, if applicable, applications for excess shares, for all or part of the issue, for the period and under the terms it will set pursuant to the applicable legislative and regulatory provisions when it decides to exercise this authorization.

The nominal amount of any immediate or future capital increases may not exceed €20,000,000 or its equivalent in any other currency. All capital increases that may be carried out pursuant to the authorizations granted to the Board of Directors by resolutions 15 to 20 submitted at the General Meeting will be deducted from this limit. Furthermore, the total nominal amount of debt instruments with immediate or deferred access to the capital that may be issued in application of this authorization may not exceed €300,000,000 or its equivalent in any other currency.

The issue price may not be less than the weighted average price of shares quoted over the three days prior to the decision, less 5%. For issues of stand-alone share subscription warrants carrying immediate or deferred rights to Company shares, this minimum price applies to the sum of the price of the warrant and the share.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors and the special report of the Statutory Auditors, and in accordance with Articles L. 225-129, L. 225-129-1, L. 225-129-2 *et seq.*, L. 225-135, L. 255-136, and L. 228-92 *et seq.* of the French Commercial Code:

- Authorizes the Board of Directors to issue, through public offerings, on one or more occasions, common stock of the Company and/or to share equivalents carrying rights to other equity securities or to debt securities and/or share equivalents carrying rights to equity securities to be issued governed by Articles L. 228-91 *et seq.* of the French Commercial Code. The Board of Directors will have full discretionary powers to determine the method and terms of this issue, which may be carried out in France or abroad.

  Securities may be subscribed for in cash or by offsetting debt or may result from securities tendered to a public exchange offer initiated by the Company under Article L. 225-148 of the French Commercial Code.

  This authorization granted to the Board of Directors is valid for a period of 26 months from the date of this Meeting;
- Decides that the nominal amount of any immediate or future capital increases may not exceed €20,000,000 or its equivalent in any other currency. All capital increases that may be carried out pursuant to the authorizations granted to the Board of Directors by resolutions 15 to 20 submitted at this General Meeting will be deducted from this limit. Furthermore, the total nominal amount of debt instruments with immediate or deferred access to the capital that may be issued in application of this authorization may not exceed €300,000,000 or its equivalent in any other currency;
- Decides to cancel Shareholders' preferential subscription rights to securities to be issued under this authorization, and give the Board of Directors the option of granting Shareholders a priority subscription right to shares as of right and, if applicable, applications for excess shares, for all or part of the issue, for the period and on the terms it will set pursuant to the applicable legislative and regulatory provisions when it decides to exercise this authorization. This priority subscription right will not be transferable or tradable;
- Decides that the issue price may not be less than the weighted average price of shares quoted over the three days prior to the decision, less 5%. For issues of stand-alone share subscription warrants carrying immediate or deferred rights to Company shares, this minimum price applies to the sum of the price of the warrant and the share;
- Notes that, as required, this authorization automatically waives Shareholders' preferential subscription rights to the shares to which these securities entitle them in favor of holders of securities issued in application of this resolution and giving deferred access to Company shares that may be issued;
- Decides that this authorization also covers the authorization granted to the Board of Directors to amend the articles of association as necessary;
- Acknowledges that this authorization cancels and replaces any previous authorizations with the same purpose.

Seventeenth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the issue amount in the event of over-demand

Statement of reasons

As the existing authorization expires in August 2019, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to increase the issue amount in the event of over-demand for a new period of 26 months starting with the General Meeting of July 18, 2019.

For each issue carried out in application of the 15th and 16th resolutions above, the Board of Directors will be authorized to increase the number of shares to be issued in accordance with Article L. 225-135-1 of the French Commercial Code in the event of over-demand, and under the following terms: (i) within 30 days of the close of the original issue, (ii) for up to 15% of its amount, (iii) for a maximum of €20,000,000, and (iv) at the same price applied in the original issue.

The General Meeting, having reviewed the Report of the Board of Directors and the special report of the Statutory Auditors, decides that for each issue carried out in application of the twelfth and thirteenth resolutions above, the Board of Directors is authorized to increase the number of shares to be issued in accordance with Article L. 225-135-1 of the French Commercial Code in the event of over-demand, and within 30 days of the close of the original issue, and for up to 15% of its amount. The subscription price will be the same as that applied in the original issue.

However, this increase may not exceed the overall maximum of €20,000,000 authorized for all capital increases carried out by the Board of Directors pursuant to resolutions 15 to 20 submitted at this General Meeting.

The General Meeting acknowledges that the present authorization cancels and replaces any previous authorizations with the same purpose.

Eighteenth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the capital by the capitalization of premiums, reserves, profits or otherwise

Statement of reasons

As the existing authorization expires in August 2019, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to increase capital by the capitalization of premiums, reserves, profits or otherwise, for a new period of 26 months starting with the General Meeting of July 18, 2019.

The total amount of capital increases that may be carried out, plus the amount required to maintain the rights of holders of securities giving access to shares, in line with legal provisions, may not exceed the total amount of reserves, premiums and profits existing at the time of the capital increase, or €100,000,000. This limit may be reduced to the amount of capital increases carried out pursuant to resolutions 15 to 20 submitted at this General Meeting.

In accordance with Article L. 225-130 of the French Commercial Code, the General Meeting, having reviewed the Report of the Board of Directors:

- Authorizes the Board of Directors, for a period of 26 months as from the date of this Meeting, to increase the capital, on one or more occasions, through incorporation of additional paid-in capital, retained earnings, earnings, or other amounts that may be capitalized in accordance with the applicable laws and the Company's articles of association, in the form of free share awards, the increase of the nominal amount of existing shares or a combination of these two methods. The total amount of capital increases that may be carried out, plus the amount required to maintain the rights of holders of securities giving access to shares, in line with legal provisions, may not exceed the total amount of reserves, premiums and profits existing at the time of the capital increase, or €100,000,000. This limit may be reduced to the amount of capital increases carried out pursuant to resolutions 15 to 20 submitted at this General Meeting;
- Decides that, in the event that the Board of Directors exercises this authorization, rights to fractional shares may not be traded or transferred, and that the corresponding securities will be sold. Proceeds from sale will be allocated to rights holders within the time limit set forth in regulations in force;
- Decides that this authorization also covers the authorization granted to the Board of Directors to amend the articles of association as necessary.

The General Meeting acknowledges that the present authorization cancels and replaces any previous authorizations with the same purpose.

Nineteenth resolution

Delegation of authority to the Board of Directors for the purpose of issuing shares without preferential subscription rights as compensation for contributions of shares or share equivalents granted to the Company as part of a contribution in kind

Statement of reasons

As the existing authorization expires in August 2019, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new authorization to issue shares without preferential subscription rights as compensation for contributions of shares or share equivalents granted to the Company as part of a contribution in kind.

This authorization will be granted for a new period of 26 months starting with the General Meeting of July 18, 2019.

Within the overall maximum of €20,000,000, the Board of Directors will have the option of issuing shares of common stock in line with the report of the contributions auditor(s), not to exceed 10% of the Company's share capital.

Within the overall maximum of €20,000,000 applicable to capital increases authorized by the resolutions 15 to 20 submitted at this General Meeting and in accordance with Article L. 225-147 of the French Commercial Code, the General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors, authorizes the Board of Directors, for a period of 26 months as from the date of this Meeting, to issue shares of common stock in line with the report of the contribution appraiser(s), not to exceed 10% of the Company's share capital, as compensation for contributions in kind granted to the Company in the form of shares or share equivalents.

The General Meeting acknowledges that this authorization cancels and replaces any previous authorizations with the same purpose. This authorization also covers the authorization granted to the Board of Directors to amend the articles of association as necessary.

Twentieth resolution

Delegation of authority to the Board of Directors for the purpose of increasing the capital without preferential subscription rights through private placement

Statement of reasons

As the existing authorization expires in August 2019, it is proposed to the General Meeting to terminate this authorization and grant the Board of Directors a new delegation of authority to increase the share capital without preferential subscription rights by private placement, for an additional 26 months starting with the General Meeting of July 18, 2019.

The total amount of share capital increases that may be carried out pursuant to this delegation is limited to 20% of the share capital per year, up to an overall ceiling of €20,000,000.

The issue price of the shares issued directly will be equal to or greater than the minimum required by the regulatory provisions in force on the day of issue for an issue without preferential subscription rights (to date, the weighted average of the share price over the three trading days preceding the setting of the subscription price of the capital increase less 5%), after correcting of this average in the event of a difference between the dividend dates.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors and the special report of the Statutory Auditors, in application of Article L. 225-136 of the French Commercial Code and Article L. 411-2 of the French Monetary and Financial Code:

- Delegates to the Board of Directors, for a period of 26 months from the date of this General Meeting, the authority to carry out, on one or more occasions, a capital increase reserved for qualified investors or a limited circle of investors in accordance with the provisions of Article L. 225-136 of the French Commercial Code and Article L. 411-2 of the French Monetary and Financial Code;
- Decides that the issue price of the shares issued directly will be equal to or greater than the minimum required by the regulatory provisions in force on the day of issue for an issue without preferential subscription rights (to date, the weighted average of the share price over the three trading days preceding the setting of the subscription price of the capital increase less 5%), after correcting of this average in the event of a difference between the dividend dates;
- Decides that the total amount of share capital increases that may be carried out pursuant to this delegation is limited to 20% of the share capital per year, up to an overall ceiling of twenty million euros (€20,000,000);
- In all cases, the amount of the capital increases carried out pursuant to this resolution shall be charged against the ceilings provided for in resolutions 15 to 20.

The General Meeting acknowledges that this delegation cancels and replaces any previous authorization having the same purpose

Twenty first resolution

Authorization granted to the Board of Directors to increase the capital by issuing shares reserved for employees enrolled in the employee savings plan

Statement of reasons

In accordance with the provisions of Articles L. 3332-1 *et seq.* of the French Labor Code and Articles L. 225-129-6 and L. 225-138-1 of the French Commercial Code, providing in particular for a permanent obligation to consult the Shareholders regarding capital increases reserved for employees enrolled in the Company savings plan, the General Meeting is called upon to terminate the existing authorization and to authorize the Board of Directors to carry out capital increases reserved for employees enrolled in the Company savings plan.

This authorization will be granted for a new period of 26 months starting with the General Meeting of July 18, 2019.

The ceiling of the nominal amount of the Company's capital increase, resulting from all share issues carried out pursuant to this resolution, is set at 2% of the share capital, this ceiling being autonomous and distinct from the ceilings referred to in other resolutions and established without taking into account the nominal value of the ordinary shares to be issued, if any, in respect of adjustments carried out to preserve the rights of holders of securities conferring entitlement to shares in the Company, in accordance with the law.

The preferential subscription right to which the issue of shares or other securities giving access to the capital provided for in this resolution confers immediate or subsequent entitlement will be canceled for the benefit of employees enrolled in the Company savings plan.

The Board of Directors shall be free to determine the terms and conditions of such increases, within the limits of this authorization and within legal and regulatory limits.

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors and the special report of the Statutory Auditors, in application of Articles L. 3332-1 *et seq.* of the French Labor Code and Articles L. 225-129-6 and L. 225-138-1 of the French Commercial Code, and acting in accordance with the provisions of said Code:

- Decides that the Board of Directors shall have a maximum period of 26 months to implement a new Company savings plan in accordance with the provisions of Articles L. 3332-1 *et seq.* of the French Labor Code;
- Delegates to the Board of Directors, for a period of 26 months from the date of this General Meeting, all powers to increase the share capital, on one or more occasions, at its sole discretion, by issue of shares or other securities giving access to the Company's capital reserved for members of a Company savings plan implemented by the Company and French or foreign companies affiliated thereto, pursuant to Article L. 225-180 of the French Commercial Code and L. 3344-1 and L. 3344-2 of the French Labor Code.

The ceiling of the nominal amount of the Company's capital increase, resulting from all share issues carried out pursuant to this resolution, is set at 2% of the share capital, this ceiling being autonomous and distinct from the ceilings referred to in other resolutions and established without taking into account the nominal value of the ordinary shares to be issued, if any, in respect of adjustments carried out to preserve the rights of holders of securities conferring entitlement to shares in the Company, in accordance with the law;

- Decides that the issue price of shares issued pursuant to this authorization will be determined by the Board of Directors in accordance with the legal and regulatory provisions applicable to companies whose shares are admitted to trading on a regulated market;
- Decides that the characteristics of the other securities giving access to the capital of the Company will be determined by the Board of Directors under the conditions set out by regulations;
- Decides to cancel the preferential subscription right to shares to which the issue of shares or other securities giving access to the capital as provided for in this resolution confers immediate or subsequent entitlement, for the benefit of the employees enrolled in a Company savings plan, and to waive any right to any shares or other securities to be awarded pursuant to this resolution;
- Decides that the Board of Directors shall have full powers to implement this delegation, within the limits and under the conditions specified above, particularly for the following purposes:
  - determine the characteristics of the securities to be issued, the amounts proposed for subscription and, in particular, set the issue prices, dates, deadlines, terms and conditions for subscription, release, delivery and enjoyment of securities, in accordance with applicable laws and regulations,
  - record the completion of capital increases up to the amount of the shares that will actually be subscribed or other securities issued pursuant to this authorization,
  - if applicable, charge the costs of the capital increases against the amount of the related premiums and deducting from this amount the sums necessary to bring the legal reserve to one-tenth of the new capital after each capital increase,
  - conclude all agreements, perform directly or by proxy all transactions and procedures including proceeding with all formalities following capital increases and corresponding amendments to the articles of association and, more generally, do whatever is necessary,
  - in general, enter into any agreement, in particular to successfully complete the proposed issues, take all measures and carry out all formalities relevant to the issue, listing and financial servicing of securities issued pursuant to this delegation and the exercise of the rights attached thereto;
- Decides that this authorization shall terminate, as of this date, up to the amount of the unused portion, authorizations previously granted to the Board of Directors to increase the share capital of the Company by issue of shares reserved for members of Company savings plans with cancellation of preferential subscription rights in favor of the latter.

Twenty second resolution

Amendment to the articles of association – Article 22 change of financial year closing date

Statement of reasons

The Board of Directors proposes to the General Meeting of change the closing date of the financial year to December 31 instead of January 31, to change seasonality and allow greater clarity in terms of financial reporting. It is thus proposed to amend the first paragraph of Article 22 of the articles of association as follows:

"The financial year begins on January 1 and ends on December 31 of each year."

The rest of the Article remains unchanged.

It is specified that the 2019 financial year after this vote will last 11 months (from February 1, 2019 to December 31, 2019).

The General Meeting, having reviewed the report of the Board of Directors, decides to change the closing date of the financial year and to amend the first paragraph of Article 22 of the articles of association as follows:

"The financial year begins on January 1 and ends on December 31 each year."

The rest of the Article remains unchanged.

Twenty third resolution

Amendment to the articles of association – Additional paragraph under Article 9B related to obligations to declare crossing thresholds

Statement of reasons

In order to allow a better follow-up of the significant evolutions in the shareholding of the Company, the Board of Directors proposes to the General Meeting to include in the articles of association, in addition to obligations provided for in paragraph 1 of Article L. 233-7 of the French Commercial Code, an obligation to declare the crossing upwards and downwards of 2.5% threshold and any multiple of that fraction. Failure to comply with this obligation, at the request of one or several shareholders holding at least 5% of the capital of the Company, will be punished by the deprivation of voting rights for the shares or rights attached thereto exceeding the undeclared fraction, for any Shareholders' Meeting to be held until the expiry of a two years after the date of the regularization of the declaration above. It is thus proposed to add a section under Article 9 B of the articles of associations relating to the obligations of declaration of crossing thresholds.

The General Meeting, having reviewed the report of the Board of Directors, decides to amend the articles of association by adding under Article 9 B of the articles of association as follows:

"In addition to the obligations provided for in paragraph 1 of Article L. 233-7 of the French Commercial Code, any natural or legal person, acting alone or in concert, who comes to hold or who ceases to hold directly or indirectly a fraction – of capital, vote or securities giving term access to the capital of the Company equal to or greater than 2.5% or a multiple of that fraction, including beyond the reporting thresholds provided for by the legal and regulatory authorities, is required to notify the Company no later than closing of trading on the 4th trading day following the day of the crossing threshold, or at the latest, when a General Meeting has been convened on the third working day preceding the Assembly at midnight, Paris time, the total number of shares, voting rights or securities giving access to the capital, which it owns alone, directly or indirectly, or in concert.

It is specified that the determination of the thresholds to be declared in application this paragraph shall be carried out in accordance with the provisions of Articles L. 233-7 and L. 233-9 of the French Commercial Code.

Non-compliance with this obligation may be punished by deprivation of voting rights for the shares or rights attached thereto exceeding the undeclared fraction for any Shareholders' Meeting which shall be held until the expiry of two years from the date of regularization of the above declaration.

The sanction is applicable if it is recorded in the minutes of the General Meeting and requested by one or more Shareholders holding at least 5% of the capital of the Company."

The rest of the Article remains unchanged.

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.

Financial year (Article 22 of the articles of association)

The financial year begins on February 1 and ends on January 31 of each year. It covers 12 months.

It will be proposed to the next General Meeting of July 18, 2019, in the 22nd resolution, to amend this articles of association so that the financial year begins on January 1 and ends on December 31 of each year.

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.

Except for disputes arising in the ordinary course of business, the Company was not involved in any governmental, judicial or arbitration procedure during the exercise that ended at January 31, 2019.

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 financial 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.

Provisions of the articles of association concerning the participation of shareholders in General Meetings (Articles 18 and 19 of the articles of association)

Please refer to Section 2.5.3 of this Registration Document.

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.

It will be proposed to the next General Meeting of July 18, 2019, in the 23rd resolution, to introduce a requirement to declare that the statutory threshold has been crossed at 2.5% of the total number of shares or voting rights of the Company.

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

For a summary of the delegations granted to the Board of Directors that may impact the Company's share capital, please refer to Section 2.5.2 of this Registration Document.

7.2.3. History of changes in share capital

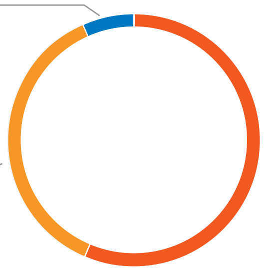
Meeting date*	Operation type	Change in share capital Issue of cash shares			Resulting total share capital	Total number of shares	Par value *(in €)*
		Par value *(in €)*	Premium *(in €)*	Number of shares created			
EGM of 01/28/1991	Incorporation of the Company	15.24		2,500	38,112	2,500	15.24
EGM of 07/26/1991	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 11/05/1996	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 12/09/1998	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 05/09/2001	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
BoD meeting of 01/02/2019	Share capital adjustment Exercise of share subscription options	3	40,339	1,450	18,053,676	6,017,892	3

* *EGM: Extraordinary General Meeting ; BoD: Board of Directors.*

7.2.4. Corporate shareholding structure

Shareholding structure

As of January 31, 2019, the shareholding structure of ESI Group is as follows:



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

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

At January 31, 2019 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	30.2%	3,638,907	46.1%
Xiu Mei Dubois	25,200	0.42%	48,200	0.61%
Alex Peng Dubois-Sun	355,419	5.91%	710,838	9.03%
SUB-TOTAL OF SHAREHOLDERS' AGREEMENT (REGISTERED SHARES)	2,205,004	36.64%	4,397,945	55.84%
Vincent Chaillou	21,197	0.35%	34,794	0.44%
Charles-Helen des Isnards	3,951	0.07%	7,352	0.09%
Éric d'Hotelans	1,589	0.03%	3,178	0.04%
Véronique Jacq	61	0.00%	62	0.00%
Rajani Ramanathan	1	0.00%	2	0.00%
Yves de Balmann	1	0.00%	2	0.00%
MEMBERS OF THE BOARD OF DIRECTORS (REGISTERED SHARES) (EXCLUDING FOUNDERS)	26,800	0.45%	45,390	0.58%
TOTAL EMPLOYEE SHAREHOLDING (REGISTERED SHARES)	70,953	1.18%	87,416	1.11%
Public shareholding, registered shares	32,782	0.54%	50,234	0.64%
Public shareholding, bearer shares	3,294,006	54.74%	3,294,448	41.83%
SUB-TOTAL PUBLIC SHAREHOLDING	3,326,788	55.28%	3,334,682	42.47%
TREASURY SHARES	388,347	6.45%	0	0.00%
TOTAL	**6,017,892**	**100.00%**	**7,875,433**	**100.00%**
Total number of theoretical voting rights: 8,263,780				

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%
Éric 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%
Éric d'Hotelans	1,589	0.0%	2,928	0.0%
Véronique Jacq	1	0.0%	1	0.0%
Rajani Ramanathan	1	0.0%	1	0.0%
Yves de Balmann	1	0.0%	1	0.0%
MEMBERS OF THE BOARD OF DIRECTORS (REGISTERED SHARES) (EXCLUDING FOUNDERS)	21,540	0.4%	38,376	0.5%
TOTAL EMPLOYEE SHAREHOLDING (REGISTERED SHARES)	64,288	1.1%	76,091	1.11%
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				

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, 2019, 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 5.91% of share capital and 9.03% of voting rights.

Declarations of ownership thresholds crossed in FY 2018

On December 11, 2018, Loys Investment, acting on behalf of funds, declared that it had crossed the 5% threshold of ESI Group's share capital and held, on behalf of the said funds, 5.17% of the share capital and 3.77% of the voting rights of the Company.

The Company was not notified of any other crossing of legal thresholds of share capital or voting rights at January 31, 2019.

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, 2019, this agreement represented 30.32% of the Company's capital and 46.35% 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 18, 2018 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 June 29, 2017.

The description of the share buyback program implemented by the Board of Directors' meeting of July 18, 2018, pursuant to the authorization granted by the Shareholders' Meeting can be consulted on the website.

Shares buyback in FY 2018

In 2018, ESI Group did not buy back any shares.

Cancellation of shares in FY 2018

In 2018, ESI Group did not cancel any shares.

Assignments or transfers of shares in FY 2018

In 2018, ESI Group distributed 18,630 treasury shares under its free share plans.

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 2018

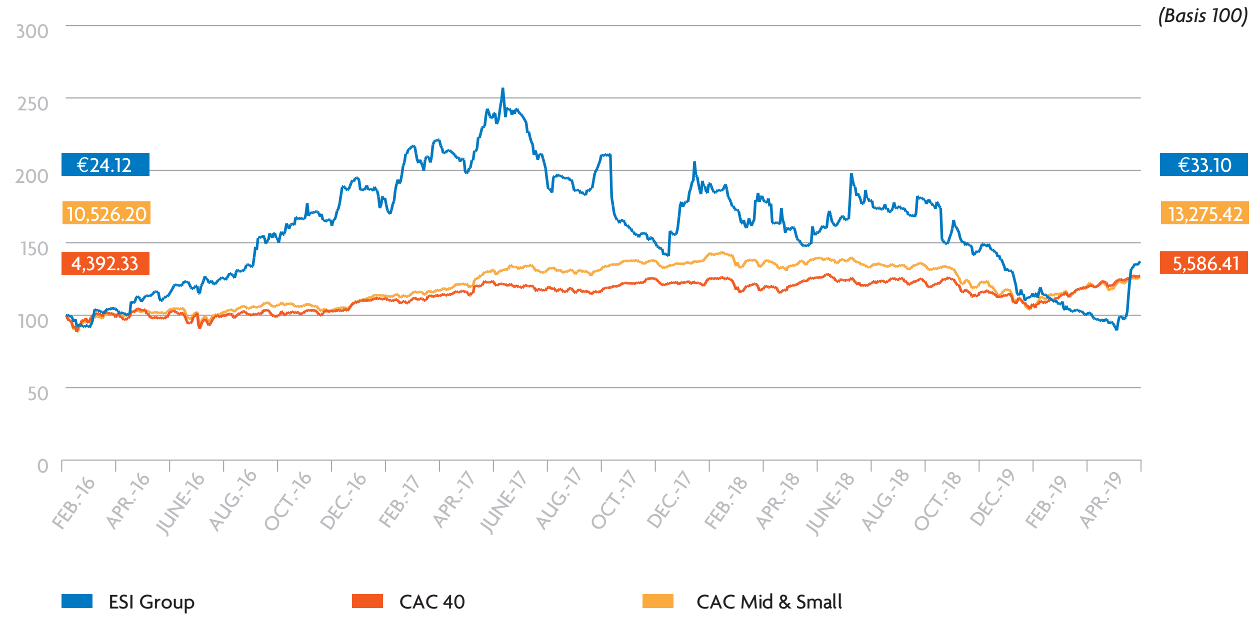
Date of authorization by the General Meeting	Resolution 12 of July 18, 2018
Date of expiration of the authorization	December 17, 2020
Ceiling on authorized buybacks	10% of share capital at the transaction date
Maximum purchase price per share	€80
Authorized purposes	Cancellation Share purchase options Free share grants Liquidity and market-making External growth
Board of Directors' meeting at which buybacks were implemented	July 18, 2018
Number of shares purchased in 2017	0
Number of shares cancelled in 2017	0
Number of treasury shares at January 31, 2018(1)	388,347
Percentage of capital held by the Company at January 31, 2018	6.5%

(1) Excluding liquidity contract.

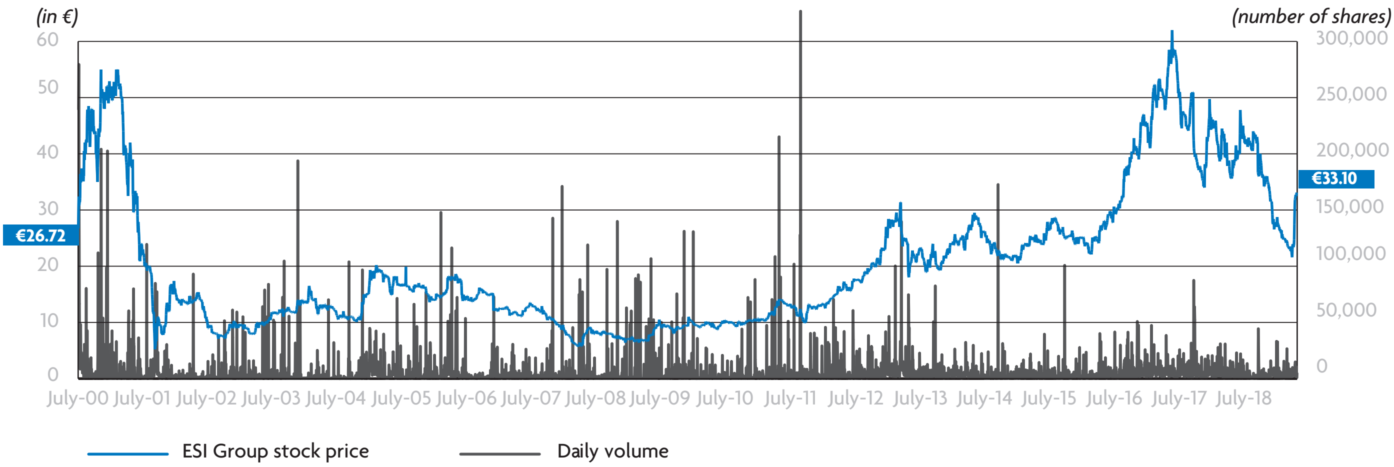
7.3. ESI shares – market

7.3.1. 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 2019:



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 2019 and the daily volume of transactions:



7.3.2. Survey of identifiable bearer shares

On April 25, 2019 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 23, 2018.

	At April 25, 2019		At April 23, 2018	
	As % of free float	As % of share capital	As % of free float	As % of share capital
French institutional investors	33.9%	18.6%	41%	22%
Foreign investors	58.6%	32.2%	52%	28%
Individual shareholders	7.5%	4.1%	7%	4%
Companies	0%	0%	0%	0%

This analysis points to a strong increase in foreign shareholders. which currently account for 32.2% of share capital. compared to 28% 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 23, 2019.

Mrs. Cristel de Rouvray, 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

Mrs. Cristel de Rouvray, 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
Florence Barré
100-102, avenue de Suffren
75015 Paris
investors@esi-group.com

Shan
Florent Alba
30, rue des Mathurins
75008 Paris
esigroup@shan.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 financial year ended January 31, 2018 which appear on pages 68-116 of the Registration Document filed with the French Financial Markets Authority (AMF) on May 25, 2018 under number D.18-0507;
- the parent company financial statements, consolidated financial statements, and the report of the Statutory Auditors for the financial 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.

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	Page(s)
• Person responsible for the document	148
• Annual financial statements of ESI Group	109
• Consolidated financial statements of the Group ESI	79
• Statutory Auditors' report on the annual financial statements	125
• Statutory Auditors' report on the consolidated financial statements	105
• 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	Page(s)
Group position and business	
• Objective and exhaustive analysis of development of the Group's business, performance and financial position	69 & 70
• Key events between the closing date and the date of the Management report	74
• Description of main risks and uncertainties and indication regarding the use of financial instruments by the Group	17
• Foreseeable development of the Group's situation and future outlook	74
• Research and Development activity	71
Shareholding and share capital	
• Structure and development of the Group's share capital	142
• Status of employee share ownership	144
• Acquisition and disposal of own shares by the Group	146
• Declarations of ownership thresholds crossed	144
• Shareholder agreements corresponding to securities comprising Company's share capital	144
Environmental, social and societal information	
• Environmental information	60
• Social information	52
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Other information	
• Information regarding supplier payment terms	72
• Table summarizing the results of the past five financial years	78
Internal control and risk management procedures	**74**
• Control environment	74
• Organization of internal control	76
• Risk management	78

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	Page(s)
• Executive management choice	22
• Limits on the powers of the Chief Executive Officer and Chief Operating Officers	22
• Composition of the Board of Directors, conditions for preparing and organizing the work of the Board of Directors	23 & 24
• List of all positions held in all companies by each corporate officers during the financial year	24
• Compensation and benefits paid during the financial year to each corporate officer	33
• Report on the principles and criteria for attributing and distributing compensation payable to executive corporate officers in respect of their term	34
• Agreements signed between a Director or a major shareholder and a subsidiary	42
• Grant and conservation of stock options to corporate officers	33
• Grant and conservation of free shares to corporate officers	33
• Table summarizing currently valid delegations granted by the Shareholders' Meeting	42
• Factors that may have an impact in the event of a public offering	45

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.

	Page(s)
ENVIRONMENTAL INFORMATION	
Overall environmental policy	
• Organization of the Company for the consideration of environmental issues and environmental evaluation or certification processes, where applicable	60
• Employee training and information on environmental protection	60
• Resources devoted to preventing environmental risks and pollution	60
• Amount of provisions and guarantees for environmental risks	60
Pollution	
• Prevention, reduction or remediation of discharges with serious environmental impact on the air, water or soil	60
• Consideration of noise and any other form of pollution specific to an activity	60
Circular economy	
• Waste prevention and management:	
– prevention, recycling, reuse and other waste recovery and elimination measures	60
– measures to fight food waste	60
• Sustainable use of resources:	
– water consumption and supply in relation to local constraints	60
– consumption of raw materials and measures to enhance efficiency	60
– energy consumption, measures to improve energy efficiency and use of renewable energies	60
– land use	60
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;	60
• 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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Fax: +33 (0)1 53 65 14 12
investors@esi-group.com

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Ruban Blanc
www.rubanblanc.fr

G.FC/19-18-A

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French limited company (société anonyme) with a share capital of €18,053,676
Registered office: 100/102, avenue de Suffren, 75015 Paris – France
Paris Trade and Company Register (RCS) number: 381 080 225
Tel.: +33 (0)1 49 78 28 28

www.esi-group.com