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Paris, September 26, 2013

Results for the first half of 2013/14

A period of consolidation

- **Negative currency and base effects**
- **Weight of the investments undertaken in the 2nd half of 2012/13**
- **Strengthening of strategic partnerships with major companies**

Alain de Rouvray, ESI Group's Chairman and CEO, says: "*As anticipated, over the period our results were heavily impacted by a combination of a negative currency effect and a negative base effect following an exceptional 1st half of 2012/13. Furthermore, the temporary decrease in the gross margin for our Services activity, the staff we have hired on second half of 2012/13 to support our growth and further investments also weighed on half-year profitability. Following two years of buoyant growth boosted by the strengthening of our strategic partnerships with major automotive and aeronautical players, the first half of this year represents a necessary period of consolidation enabling us to strengthen, through targeted corrective measures, the foundations for healthy and profitable growth.*"

ESI is the leader and a pioneer in virtual prototyping solutions.

Stock market information

Listed on **compartment C of the NYSE Euronext Paris**
ISIN FR 0004110310

FTSE 977

Bloomberg ESI FP

Reuters ESIG.LN

Granted **"*entreprise innovante*"** (innovative company) certification on January 20, 2000 by OSEO, **ESI Group** is eligible for inclusion in FCPI (venture capital trusts dedicated to innovation).

Financial schedule

Revenue for the 3rd quarter of 2013/14 will be published on

December 12, 2013
(after market)

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Consolidated half-year results

(FY to January 31 / unaudited)

In € millions	H1 2013/14 to July 31, 2013	H1 2012/13 to July 31, 2012	Δ (actual)		Δ (constant currency)	
			€m	%	€m	%
Total sales	**44.3**	**44.7**	-0.4	-1.0%	2.4	5.3%
Licenses	29.9	30.2	-0.3	-1.0%	2.0	6.6%
Services	14.4	14.6	-0.1	-1.0%	0.4	2.7%
Gross margin	**27.9**	**29.2**	-1.3	-4.6%	1.0	3.3%
% of sales	*63.0%*	*65.3%*				
EBITDA	**-3.7**	**-1.2**	-2.5	*ns*	-1.1	*ns*
% of sales	*-8.3%*	*-2.6%*				
Current operating profit/loss	**-4.5**	**-1.1**	-3.4	*ns*	-2.0	*ns*
% of sales	*-10.2%*	*-2.4%*				
Operating profit/loss	**-5.0**	**-1.4**	-3.6	*ns*	-2.2	*ns*
% of sales	*-11.2%*	*-3.0%*				
Attributable net profit/loss	**-3.8**	**-1.1**	-2.8	*ns*	-1.8	*ns*
% of sales	*-8.7%*	*-2.4%*				

These figures were approved by the Board meeting of September 20, 2013.
Reminder: the seasonal nature of ESI Group's Licenses sales usually translates into a larger proportion of full-year revenues and results being recorded over the fourth quarter of the year.

First-half sales up +5.3% at constant currency

As announced on September 12, 2013, revenue for the 1st half of the year totalled €44.3 million, a slight decrease of -1.0% in actual terms and an increase of +5.3% at constant currency, the currency effect having a -€2.8 million impact on revenue. This performance reflects an encouraging sales dynamic penalised by a negative base effect. (ESI Group recorded a number of deals in the 1st quarter of 2012/13 that generated a substantial +22.2% increase in half-year revenue, +16.4% at constant currency).

Licenses activity recorded revenue of €29.9 million, up +6.6% at constant currency:

- The "*Renewal*" of the Licenses installed base recorded a solid increase of +8.3% at constant currency, totalling €21.3 million.
- The repeat business rate for Licenses remained high at 83%, at constant currency.

- Licenses New Business increased by +1.3% at constant currency despite the particularly negative base effect associated with the deals exceptionally recorded during the 1st quarter of 2012/13.

Services activity recorded revenue of €14.4 million, up +2.7% at constant currency. This evolution reflects a consolidation in activity following last year's very buoyant growth and the gradual withdrawal from non-strategic and non-aligned activities such as contracting in the United States.

The geographical split in activity edged towards Europe over the period (41.1% vs. 37.7%), driven by the upturn in Services activity, notably in France. The decrease in the weight of the Asia zone (40.2% vs. 42.8%) was associated with the currency impact and occurred despite the solid performance of Licenses activity (+9.1% at constant currency). The Americas zone, which benefitted from a catch-up effect during the 1st quarter, slipped back over the 2nd quarter due to the withdrawal in contracting Services activity, and accounted for 18.7% of total activity vs. 19.5% a year earlier. The 1st half benefited from the continuing dynamism of BRIC countries (Brazil, Russia, India, China), which now represent 14.7% of half-year revenue compared with 13.9% last year.

Evolution of results and costs

EBITDA totalled -€3.7 million over the period, down -€2.5 million compared to the 1st half of 2012/13. This fall can be explained by a negative currency effect of -€1.5 million, a decrease in the Services gross margin and an increase in investments, particularly in Sales and Marketing. Nevertheless, it does confirm the resilience of the Group's economic performance and the robustness of its business model.

Given these factors, as well as costs inherent to the implementation of corrective measures, the net loss (IFRS) came to -€5.0 million, a fall of -€3.6 million in actual terms and -€2.2 million at constant currency.

The gross margin was thus 64.1% of revenue at constant currency (63.0% in actual terms), down slightly compared to the 1st half of last year because of a decrease in the Services gross margin. This decrease was a result of the base effect associated with exceptional projects produced and delivered last year without any additional resources, as well as the withdrawal from contracting services in the United States, the effect of which was not yet visible on resources and costs over the period. The Licenses gross margin remained stable at constant currency, again confirming the solidity of the business model.

Globally, costs not directly related to production were up +7.4%:

- IFRS Research & Development costs were up +2.3% at €7.5 million over the period. ESI Group has continued its R&D investment policy, with spending increasing by +1.5% to €9.9 million (excluding Research Tax Credit and IFRS restatement), or 33.3% as a proportion of Licenses sales (30.9% at constant currency) compared with 32.4% a year earlier.
- Sales & Marketing costs came to €17.6 million, up +8.2% compared with the previous year, and represented 39.7% of sales compared with 36.3% over the same period last year. This increase was mainly driven by investments for diversification of sales associated with recent acquisitions and growth in BRIC countries, and notably the full effect over the period of the staff recruitments undertaken during the 2nd half of 2012/13, as well as reorganisation costs and change in scope.
- General and Administrative costs totalled €7.3 million over the 1st half of 2013/14, an increase of +8.5%, thus representing 16.5% of sales compared with 15.0% the previous year. These costs include reorganisation costs such as the start of the implementation of management tools, as well as premises-related investments (in France, Ter@tec, and in India).

At constant currency, total operating costs came to €50.6 million over the period (€49.2 million in actual terms), an increase of +9.8% on the 1st half of last year, compared with sales growth of +5.3% at constant currency. This increase should also be considered alongside the increase in the average workforce (+9.0% between the two periods) following the recruitments launched in the 2nd half of 2012/13.

Once the financial loss and the tax effect are taken into account, the Group's attributable net loss was -€3.8 million, a further -€2.8 million fall compared with the 1st half of 2012/13 (-€1.8 million fall at constant currency).

A sound financial structure

The Group had €10.7 million euros in available cash at July 31, 2013 versus €11.9 million at July 31, 2012 and €7.6 million at January 31, 2013. Net debt was €7.3 million vs. €10.9 million at January 31, 2013, whilst gearing (net debt over shareholders' equity) was limited to 9.9%, an improvement on the figure of 14.1% at the end of 2012/13.

Strengthening of the strategic partnerships with major industrial players

During the period, the extension of ESI Group's collaboration with Alliance Renault-Nissan and the Volkswagen group illustrates the pursuance of the Group's strategy to accompany its customers towards the implementation of end-to-end virtual prototyping projects. This policy of deploying ESI's solutions amongst industrial partners is a crucial issue for the revitalization of certain sectors that are under particular pressure to innovate, notably the automotive, aeronautical and energy sectors, which are striving to improve their productivity gains by migrating to fully-digital technology. Achieving this objective is based on a high-value-added individualised collaboration, a methodology termed 'co-creation', through which ESI Group defines the most suitable virtual prototyping solution for each sector and each player. The current efforts being deployed by the Group to establish itself as a major player in this transition towards an all-digital format are visible through the partnerships signed in numerous countries with major leaders in each industry. The Group therefore remains confident in the pertinence of its approach, noting that its co-creation process results in escalation in the value chain of its customers and acceleration in its Licenses sales, the essential driving force behind an improvement in profitability