get it right™

HALF-YEARLY SHAREHOLDER LETTER

MAY 2009

FY08/09 RESULTS

Revenues: 70.2M€
+1.9% by volume

Software revenues: 52.6 M€
-2.4%

Services Revenues: 17.6M€
+17.4%

EBITDA : 7.1M€
(10.1% margin)

Net Result: 4.2M€ *(+81%)*

ESI IN BRIEF

· Founded in 1973

· Editor of Applied Mechanics industrial software, providing decision-making solutions through virtual testing and prototyping

· Expert in the field of « physics of materials »

· Average headcount: 696 people worldwide, mainly engineers with high level graduates from the best international universities and engineering schools.

· FY08/09 revenue of 70.2M€

· Diversified and prestigious customers (OEMS, Suppliers, ...)

· Technological and industrial partnerships with high added value

2008/09 ANNUAL RESULTS
NET PROFIT: +81%
EBITDA MARGIN: 10% OF SALES

FURTHER GROWTH IN THE INSTALLED BASE

As announced on 10th March 2009, 2008/09 annual sales totalled 70.2 million euros, up +2% in actual terms. Licence activity saw a slight fall in sales (-2%), whilst Services saw a substantial increase (+17%). Hence, the product mix has evolved towards Services, as this activity now represents 25% of Group sales versus 22% in 2007/08. Contrasting with the fall in New Business, notably over the fourth quarter, the recurrent installed base for Licences rose +2.3% over the year, taking the rate of repeat business for this activity to 77%, from 76% the previous year.

It should be noted that 0.5 million euros of Group sales came from acquisitions (Vdot and Mindware) carried out towards the end of the financial year. Consolidated since October 15th 2008, Vdot thus contributed €0.1m to Licence sales whilst Mindware, consolidated since December 16th 2008, contributed €0.4m to Services sales.

IMPROVEMENT IN EBITDA MARGIN

Up +8% at 7.07 million euros, Earnings Before Interest, Taxes, Depreciation and Amortisation reached 10.1% of sales, and reflect the Group's focus on controlling its cost structure.

Research and Development costs were down by close to 10%, at 12.2 million euros, due mainly to controlled investments and the increase in the French Research Tax Credit over the year; Research and Development expenses thus represented 17.5% of total annual sales and 29.3% of those of Licensing.

Sales investments continued, and sales and marketing costs were up +3% at 22.5 million euros.

General and Administrative costs totalled 10.0 million euros, an increase of 1.3 million euros due to non-recurrent exceptional charges and changes in cost allocations.

All in all, operating costs were under good control, rising only by +1.3% compared to the 2007/08 financial year.

With depreciation and amortisation, both of which increased, operating profit totalled 5.4 million euros, resulting in an operating margin of 7.7%, in small decline of -5% compared to 2007/08.

IMPACT OF FOREIGN EXCHANGE HEDGING

Foreign exchange hedging was implemented from the start of the financial year and resulted in a 2008/09 financial profit of 0.23 million euros, compared to an essentially foreign exchange related loss of -2.42 million euros the previous year.

Net profit thus came to 4.21 million euros, a significant jump of +81% compared to 2.33 million euros in FY 2007/08.

SOLID FINANCIAL STRUCTURE

Once the financing of acquisitions, the substantial debt reimbursement and the increase in treasury shares – which now represent 7.3% of capital and lay witness to management's confidence in the Group's prospects – are taken into account, available cash at year end totalled 8.6 million euros. The generation of operating Free Cash Flow came to €3.2m, a strong increase on the previous financial year.

The Group's ratio of financial debt over shareholders equity remains moderate, at 15%.

PERSPECTIVES

Although the current context of a global economic crisis reduces visibility on the increasing adoption of our solutions, and in particular regarding new orders, it also highlights the solidity of our activity's recurrent nature and amplified client confidence. In a situation of heightened competition and given the need to innovate whilst reducing costs and delays, our End-to-End Virtual Prototyping solutions allow to manage with remarkable efficiency the virtual prototyping of industrial products from creation through to end development, to limit its complexity and risks, resulting in the successful validation of real prototypes "to get it right the first time". Backed by a solid financial structure and by the proven pertinence of our strategic and commercial positioning, notably amongst our major corporate clients, we remain fully confident in ESI's development and in the pursuance of the improvement in our profitability.

Alain de ROUVRAY - Chairman & CEO

HIGHLIGHTS

EVOLUTION OF THE PRODUCT MIX TOWARDS SERVICES, IN LINE WITH THE GROUP'S STRATEGY

ESI's development, in this phase, leads to a gradual evolution in the product mix towards Services.

Indeed, the strong growth in Services activity reflects:

· the increasing sensitivity of economic players to realistic digital simulation, which has become a competitive necessity, creating a growing demand of dedicated software,

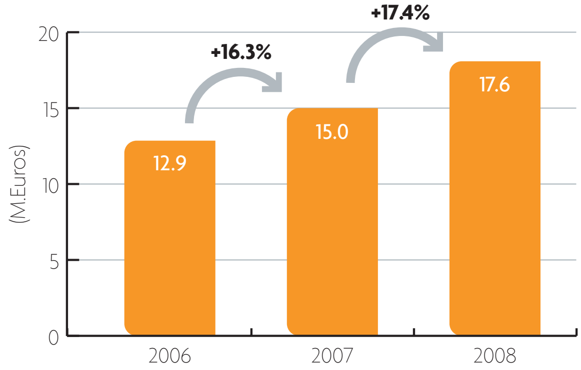
· the unique nature of ESI's know-how and experience in accompanying the necessary methodological mutation in the form of high-added value Services.

ESI's leadership in Services should result in a number of positive effects:

· an increase in the gross margin for Services activity associated with this high level of expertise; the gross margin for Services at the end of 2008/09 was thus 33.5%, versus 32.0% at the end of 2007/08.

· an acceleration in due time in Licence sales induced by the accompanying Services and the technology transfer towards OEMs and their suppliers.

Services activity's evolution and growth



Split of total activity

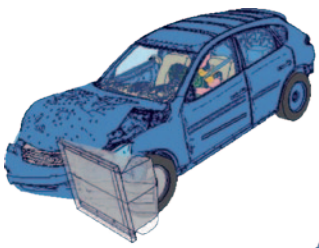
AMPLIFICATION OF THE ADOPTION OF INTEGRATED SOLUTIONS BY MAJOR CORPORATE CLIENTS

ESI has continued to strengthen its presence amongst its main corporate clients via the deployment of new solutions. Sales from its top ten clients were up +11%, reflecting the strategic dominance of ESI's solutions amongst its main OEMs, who have chosen to increase their installed software bases in order to benefit, within this crisis context, from time savings and productivity gains, but also from innovation allowed by the implementation of these solutions.

The share of Top ten clients reaches 32% in FY08 vs 29% in FY07

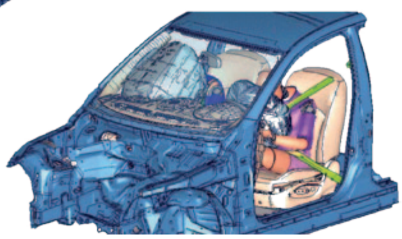
Side Impact

Courtesy of NISSAN MOTOR CO. LTD.



Frontal Impact

Courtesy of NISSAN MOTOR CO. LTD.



“Using Virtual Performance Solution, we were able to meet the targeted performance in our design. We had very accurate results especially in the assessment of structural failure scenarios in crash conditions using ESI-Wilkins-Kamoulakos (EWK) damage and rupture model. ESI supports our product innovation by offering an all-inclusive scalable simulation solution: Virtual Performance Solution allows cost and time savings in our Product Development Cycle.”

Kazuhiro OBAYASHI,

Integrated CAE Department Manager at NISSAN MOTOR CO. LTD.

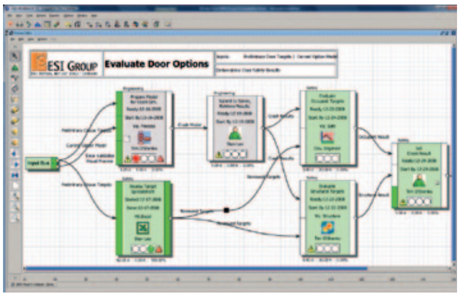
EXTERNAL GROWTH

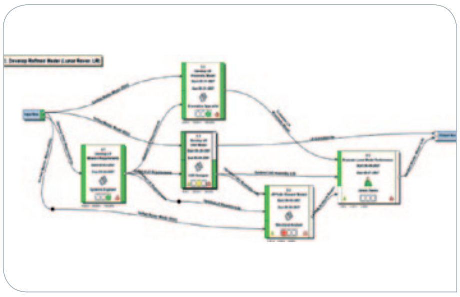
ACQUISITION AND INTEGRATION OF VDOT™

Vdot™ is American lean project/process management software. Through this acquisition, ESI is adding an essential and highly-competitive component to its Visual*DSS* system, which is a unique decision-making aid in the field of Computer Aided Engineering (CAE). This execution platform makes it easier for teams to respect deadlines and secure the transfer and correct integration of data. It allows fast and reliable decision-making by all actors of the PLM in general and specifically throughout the digital simulation process, enabling the accelerated finalisation of projects and an increase in their degree of automation and flexibility. ESI already uses this tool internally to optimise development processes in its own new projects.

"Vdot™ supports management's ability to quickly assess problem areas and greatly reduces the uncertainty of who is directly responsible for work accomplished at any point in the project life cycle. Vdot was invaluable in managing a development project with a very distributed engineering team, spread across several disciplines and development tools."

Roger Herdy, Qualis Corporation, Program Manager
NASA Marshall Space Flight Center



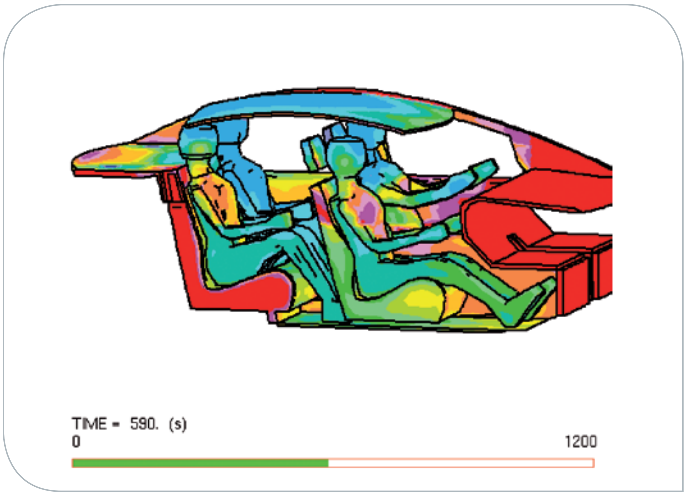


Talon robot rover arm was redesigned for lunar mission from original terrestrial environment

ACQUISITION AND INTEGRATION OF MINDWARE ENGINEERING

A leading software services provider headquartered in the United States, Mindware is a recognised player in engineering services in the field of Computational Fluid Dynamics (CFD), but also in fluid /structure interaction and data management. Mindware has established close relationships with lead customers from Automotive, Aerospace and Defence companies by providing digital simulation-based solutions driving product design and development. Mindware has operations in three continents, mainly in the United States, but also in Europe and India.
This acquisition will thus allow ESI to accelerate the adoption of virtual prototyping in the simulation-based design CFD market.
Mindware recorded estimated (pro forma) 2008 sales of approximately €6.9m, an annual increase of more than 20%, with double-digit operating profitability.

Mindware Engineering



CREATION OF ESI ITALIA

ESI strengthens its position in Europe and opens a new subsidiary in Italy, ESI Italia, located in Bologna, Italy, in the northern part of the country. The opening of a new subsidiary, in line with ESI's distribution network development strategy, will reinforce ESI's presence in Southern Europe, a market which has considerable growth potential. The Group has been working in Italy for many years thanks to a local network of agents and distributors. The decision to open ESI Italia will help identify new customers and significantly strengthen relationships with existing clients and partners.

"I am convinced that Italy will bring attractive growth opportunities for ESI. We have an ambitious development plan to support existing and new customers and help them deliver better products with more innovation and at lower prices with the support of ESI's high value added software and services"

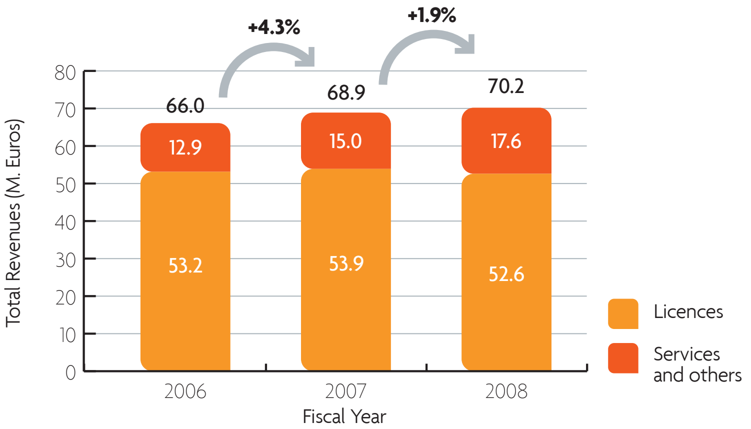
Denis Luci, Managing Director

2008/2009 FINANCIAL HIGHLIGHTS

IMPROVEMENT OF PROFITABILITY

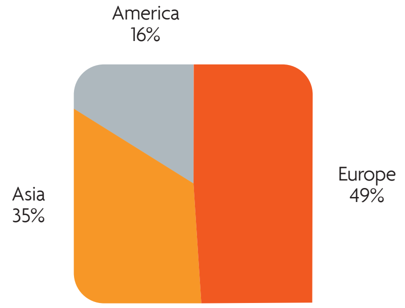
NET RESULT: +81% - EBITDA MARGIN: 10% OF REVENUES

GROWTH OF ACTIVITY



- **Total growth including new M&A : +1.9%**
- **Mix-product evolution:** Licences at 75% (vs 78% FY07)
- **Neutral exchange rate impact on FY08**

TOTAL BREAKDOWN PER AREA



- **Strengthening of Europe** ; significant growth
- **America share remains stable** ; growth impacted by exchange rate

COST STRUCTURE CONTROL

M€	FY08	FY07	%△	△
Licenses and maintenance	52.591	53.894	(2.4)%	(1.3)
Services	17.563	14.960	+17.4%	+2.6
Total Revenues	70.154	68.853	+1.9%	+1.3
Cost of Sales	(19.971)	18.944	+5.4%	(1.0)
% of Total Revenues	(28.5)%	(27.5)%		
Gross margin	50.183	49.909	+0.5%	+0.3
% of Total Revenues	+71.5%	+72.5%		
R&D costs	(12.244)	(13.581)	(9.8)%	+1.3
% of Total Revenues	(17.5)%	(19.7)%		
S&M costs	(22.528)	(21.921)	+3.0%	(0.6)
% of Total Revenues	(32.1)%	(31.8)%		
G&A costs	(10.041)	(8.735)	+15.0%	(1.3)
% of Total Revenues	(14.3)%	(12.7)%		
Operating costs	(44.813)	(44.237)	+1.3%	(0.6)
% of Total Revenues	(63.9)%	(64.2)%		
Operating result	5.370	5.672	(5.3)%	(0.3)
% of Total Revenues	+7.7%	+8.2%		
Total costs	*-64.784*	*-63.181*	*+2.5%*	*(1.6)*
% of Total Revenues	*-92.3%*	*-91.8%*		

- **Improvement of gross margin** - Effect of mix products
- **Control of operational expenses**: non recurring costs effect
- EBIT : Impact of slowdown on Q4-FY08 for new licensing business

CASH FLOWS IMPROVEMENTS

M€	FY08	FY07	△
Net cash flow from operations	5.9	2.5	3.4
Increase in working capital	(1.0)	(0.4)	(0.6)
Operational investments	(1.6)	(1.8)	0.2
Free Cash Flow	3.2	0.2	3.0
M&A	(4.1)	0.0	(4.1)
M&A financing	5.1	0.0	5.1
Total M&A impact	1.0	0.0	1.0
Sales of receivables	(1.9)	1.9	(3.9)
Reimbursement	(4.6)	(0.6)	(4.0)
Treasury shares	(1.5)	(0.4)	(1.1)
Balance Sheet management impact	(8.0)	1.0	(9.0)
Exchange rate impact	(0.7)	2.2	(2.9)
Net movement	(4.5)	3.4	(7.8)
Total available cash (beginning of the year)	13.1	9.7	3.4
Total available cash (closing)	8.6	13.1	(4.5)

- **Improvement of free cash flow**
- **Grow of investments** and financing linked to M&A
- **Reimbursement of debts of previous M&A** and treasury shares (7.3% of capital)

NET RESULT IMPROVEMENT

M€	FY08	FY07	%△	△
Income from Operations	5.37	5.67	(5)%	(0.3)
Interest cost, net	(0.75)	(0.76)	(0)%	+0.0
Foreign exchange gains and losses	0.98	(1.67)	(159)%	+2.6
Income (Loss) from financial activities	0.23	(2.42)	(109)%	+2.6
Income before taxes	5.59	3.25	+72%	+2.3
Income Tax and minority interests	(1.29)	(0.88)	+46%	(0.4)
Income before minority interests	4.30	2.37	+82%	+1.9
Minority interests	(0.09)	(0.04)	+129%	(0.1)
Net Income	4.21	2.33	+81%	+1.9
	6.0%	*3.4%*		

- **Small decrease of EBIT**
- Financial result upturn
    - Exchange rate hedging impact
- Decrease of average tax rate
- **Strong improvement of net result**

SOLID FINANCIAL POSITION

M€	FY08	FY07	△
ASSETS			
Non current assets	55.4	49.7	+5,7
Current assets	48.2	50.7	(2.5)
incl. Cash	8.6	13.1	(4.5)
incl. Customer receivables	31.2	31.4	(0.2)
TOTAL ASSETS	**103.6**	**100.4**	**+3.2**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Shareholder's equity	61,5	58.3	+3.2
Non current liabilities	11.2	6.6	+4.5
incl. long term share of financial debt	9.2	4.9	+4.3
Current liabilities	30.9	35.5	(4.6)
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**103.6**	**100.4**	**+3.2**
RATIO Long term debts / Shareholder's equity	*15.0%*	*8.4%*	

- **Strengthening of balance sheet:** solid financial position
- DSO control in an economic slowdown context
- Low indebtedness ratio – evolution linked to M&A

get it right™

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ESI Group is qualified as "an innovative company" since January 20, 2000 by OSEO-ANVAR and is eligible for inclusion in "FCPI" (venture capital trusts dedicated to innovation).

Listed in Euronext - Compartment C of NYSE Euronext
Sector: Software - ISIN FR0004110310
Bloomberg ESI FP - Reuters ESIG.LN

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