



**Alain de ROUVRAY**  
Chairman & CEO

*Pioneer and world leading provider of digital simulation solutions for product prototyping and manufacturing processes*

### 2007-08 Full-Year results

**Operating margin: 8.2%**

**Significant improvement in cash flow**

As announced on 11 March 2008, full-year revenues for the 2007-08 financial year totalled €68.9 million, up +4.3% year-on-year or +8.5% at constant exchange rates. This organic revenue growth comprises moderate growth in the Licences business of +1.4% in real terms and +5.8% in volume, and very sound growth for the Services business of +16.3% in real terms and +20.0% in volume.

81% of revenues were generated outside France.

#### Improvement in operating margin at constant exchange rates

Operating profit came to €5.7 million or €6.6 million in volume, stable in real terms compared to 2006-07 but up +18% at constant exchange rates. Operating margin was therefore 9.3% at constant exchange rates and 8.2% in real terms. This more or less stable margin was a result of:

- a significant impact of the unfavourable development of exchange rates which cut down the Group's revenues by €2.8 million;
- a product mix effect on gross margin despite significant improvement in gross margin on Services activities;
- continuing control of Research and Development costs, which represented 29% of Licences revenues compared with 30% in 2006-07, as well as general operating expenses (down 1.7%);
- growth of 8.2% in sales and marketing expenses, in particular as a result of increased commercial investment in order to build up local teams.

#### Significant improvement in cash and operating cash flow

After interest expenses of €0.76 million, currency losses relating to the unfavourable development

of exchange rates (in particular the US dollar and the Korean won) of €1.67 million and a tax charge of €0.88 million, attributable net profit was €2.3 million.

In parallel, ESI Group generated €3.4 million of cash, mainly as a result of improved management of its working capital requirement. Operating cash flow therefore increased significantly to €6.2 million. Available cash at 31 January 2008 stood at €13.1 million.

The Group's financial position remained solid, with an indebtedness ratio (long-term financial debt over shareholders equity) of 8.4%.

#### Synthesis

2007-08 was characterised by the continuing transition phase in the Licences business, while the Services business saw a strong growth. In addition, operational margin remained stable relative to last year but grew up by 18% in volume. The Group's fundamentals remain solid. We have strengthened our financial position thanks to cash generation of €3.4 million and our strategy keeps being confirmed by the continuing roll-out of our solutions at major clients.

#### Outlook

Despite the prevailing uncertain economic conditions, we are confident about improving our performance over the current fiscal year. Indeed, we expect to see the positive effects of commercial investments carried out in 2007-08, as well as continuing strong growth in the Services business. Net margin should also benefit from a more effective currency hedging. Therefore, operating margin is expected to reach 10% of 2008-09 total revenues.

### FY2007-08 Results

**Revenues: 68.9 M€**

*growth: +8.5% in volume*

**Software revenues: 53.9 M€**

*growth: +5.8% in volume*

**Services revenues: 15M€**

*growth: +20% in volume*

**Operating Result:**

**5.7 M€ (8.2% du CA)**

**Improvement of available cash:**

**13.1M€**

### ESI Group 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 : 675 people world-wide; mainly engineers with high level graduates from the best international universities and engineering schools
- A FY2007 revenue of 69M€ with 81% outside France
- Diversified and prestigious customers (OEMs, Suppliers...)
- Technological and industrial partnerships with high added value

# Evolution and Key points

## Commercial strategy

With an analysis of our performance confirming increasing market appeal for realistic simulation solutions, ESI Group is pursuing its sales strategy at several levels:

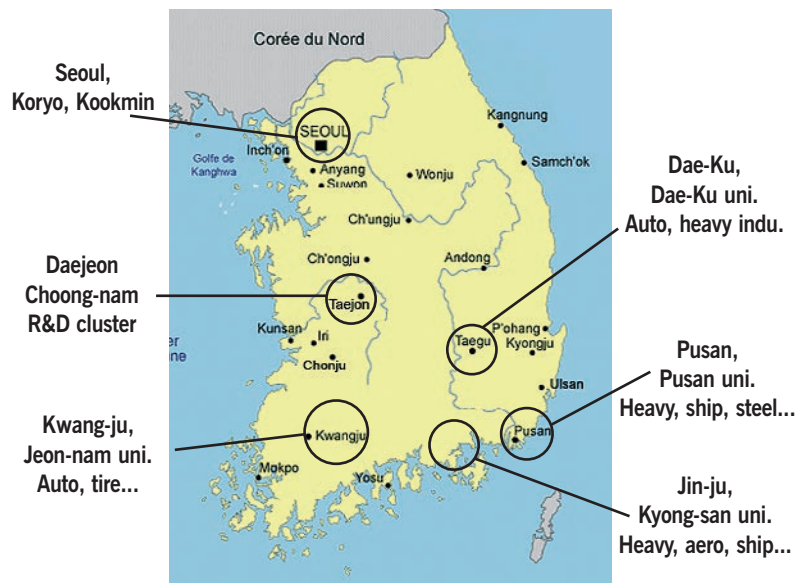
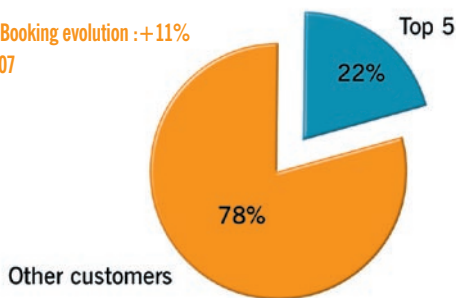
### Direct Sales

**The adoption of new solutions amplified among major clients:** ESI Group continued to strengthen its position among major OEM clients such as VW, Renault-Nissan, Hyundai and Thalès-DCNS by rolling out new solutions. This illustrates the relevance of ESI Group's strategic position, which consists of supporting the changeover to Simulation Based Design (SBD) by offering a range of applications covering all aspects of realistic simulation and available in an open environment (VisualDSS) compatible with clients' best practices.

*"In 1996 PAM-CRASH was introduced in Škoda Auto... Since then it has been used for the design of each ŠKODA car model. The long-term profitable collaboration with ESI Group backed with local services and engineering simulation software has helped Škoda reach new standards in design and production with the recently launched Roomster the first Škoda's car to score 5 star rating at EuroNCAP"*

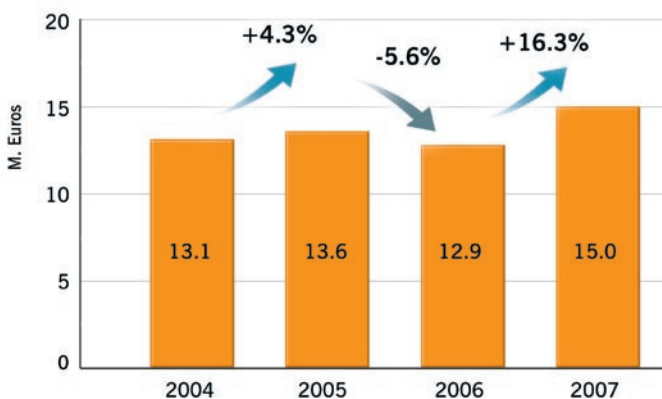
Milos Safr, Head of FEM Simulations  
ŠKODA AUTO a.s.

TOP 5 Booking evolution : +11%  
sur FY07

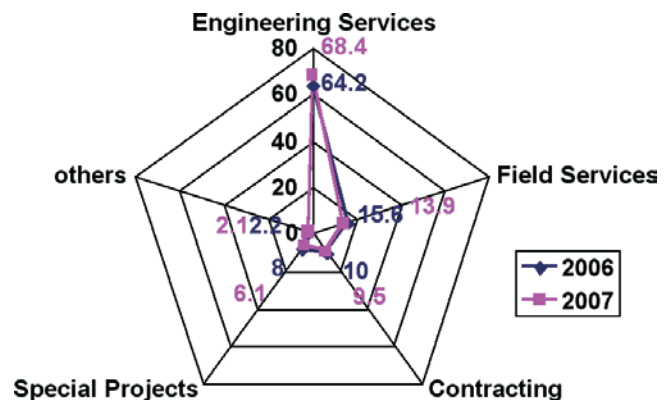


Strengthening of local Academic Programmes: Ex. of South Korea

**The increase of the Services business**, indicates growing demand among industrialists for integrated solutions offering strong added value, as well as interest from new operators for realistic simulation.



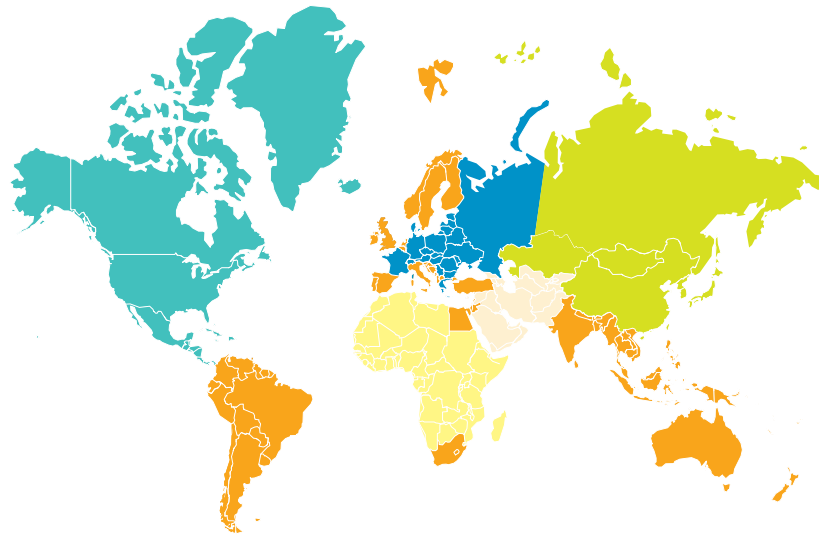
The upturn in Services activity: +20% in volume



The amplification of high added value Services

**The commercial structure strengthened**, with the appointment of new general managers in Spain, Germany, Japan and China and the building up of local support teams; the positive effects of these investments in terms of revenues should begin to be seen in 2008-09.

# Evolution and Key points



## Strengthening of indirect channels

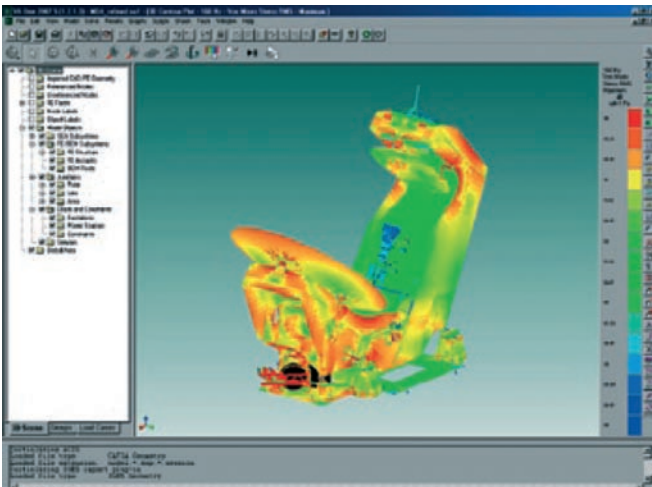
A dedicated structure for indirect sales and small territories was created and named IBU (International Business Unit) in order to organise and optimise this channel which now represents about 10% of total booking.

Evolution of agent's number: 65 in 2007 (vs 50 in 2006)

## Business Sector diversification

The business sector diversification outside automotive is going on with the growth in Heavy Industry, Energy, Aerospace, Education.

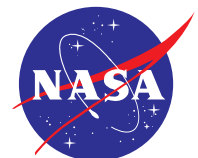
### ⊙ Aeronautics / Aerospace



Courtesy: MDA

"Ensuring that our structures survive the harsh environments encountered during launch and liftoff is essential to our missions. Using VA One we can now predict the dynamic stress, strain and force in key components. This will help us to ensure that our structures are qualified for the acoustic and vibrational environments encountered during launch and liftoff."

Ben Tsoi, Senior Dynamics Environmental Engineer at NASA Jet Propulsion Laboratories

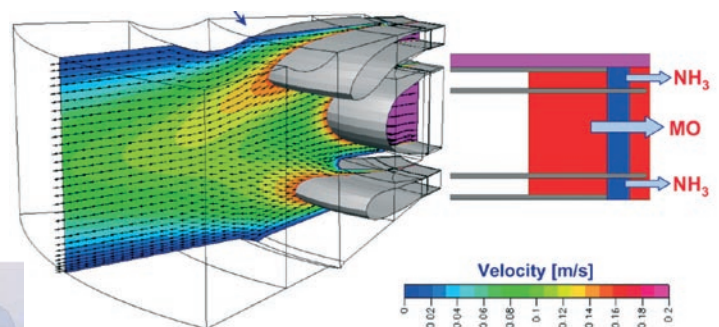


### ⊙ Energie - Micro-technologies

Improvement of reliability and design costs reduction for new LED (Energy saving; cleaner energy: reduction of CO2 )



Example of architectural lighting with LED (Light Emitting Diodes)



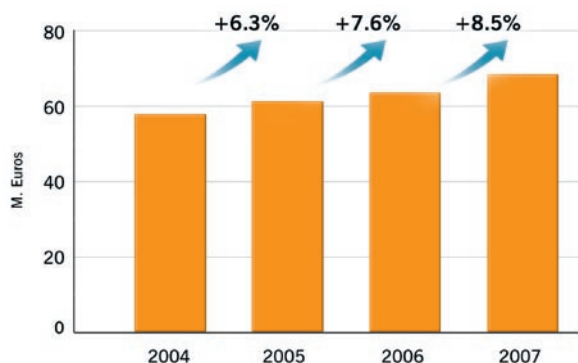
**AIXTRON**

Simulation of a gaz injector in AIXTRON Planetary Reactor®

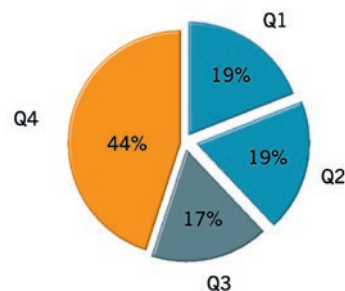
# 2007-08 Financial Highlights

Operating Margin: 8.2%, Improvement of cash flow and available cash

## » Acceleration of total revenues in volume



## » Amplification of seasonal effect for licensing revenues



» Fourth quarter represents 44% of Licensing activity

## » Stable operating result

M.€	FY07	FY06	%Δ	Δ
Licenses & maintenance	53.894	53.157	+1.4%	+0.7
Services	14.960	12.860	+16.3%	+2.1
<b>Total Revenues</b>	<b>68.853</b>	<b>66.017</b>	<b>+4.3%</b>	<b>+2.8</b>
<b>Cost of Sales</b>	<b>(18.944)</b>	<b>(17.851)</b>	<b>+6.1%</b>	<b>(1.1)</b>
% of total Revenues	(27.5)%	(27.0)%		
<b>Gross margin</b>	<b>49.909</b>	<b>48.166</b>	<b>+3.6%</b>	<b>+1.7</b>
% of total Revenues	+72.5%	73.0%		
<b>R&amp;D costs</b>	<b>(13.581)</b>	<b>(13.386)</b>	<b>+1.4%</b>	<b>(0.2)</b>
% of total Revenues	(19.7)%	(20.3)%		
<b>S&amp;M costs</b>	<b>(21.291)</b>	<b>(20.259)</b>	<b>+8.2%</b>	<b>(1.7)</b>
% of total Revenues	(31.8)%	(30.7)%		
<b>G&amp;A costs</b>	<b>(8.735)</b>	<b>(8.887)</b>	<b>(1.7)%</b>	<b>+0.2</b>
% of total Revenues	(12.7)%	(13.5)%		
<b>Operating costs</b>	<b>(44.237)</b>	<b>(42.542)</b>	<b>+4.0%</b>	<b>(1.7)</b>
% of total Revenues	(64.2)%	(64.4)%		
<b>Operating result</b>	<b>5.672</b>	<b>5.624</b>	<b>+0.9%</b>	<b>+0.0</b>
% of total Revenues	+8.2%	+8.5%		
<b>Total costs</b>	<b>-63.18</b>	<b>-60.39</b>	<b>+4.6%</b>	<b>(2.8)</b>
% of total Revenues	-91.8%	-91.5%		

- » Significant contribution of Services margin improvement
- » High negative exchange rate impact

## » Sound financial situation

Assets (in M.€)	31/01/2008	31/01/2007	Δ
<b>Non current assets</b>	<b>49.7</b>	<b>48.0</b>	<b>+1.8</b>
<b>Current assets</b>	<b>50.7</b>	<b>48.7</b>	<b>+2.0</b>
incl. Cash	13.1	9.7	+3.4
incl. Customer receivables	31.4	32.1	(0.7)
<b>TOTAL ASSETS</b>	<b>100.4</b>	<b>96.7</b>	<b>+3.8</b>
Liabilities and shareholder's equity (in M.€)			
<b>Shareholder's equity</b>	<b>58.3</b>	<b>55.2</b>	<b>+3.1</b>
<b>Non current liabilities</b>	<b>6.6</b>	<b>5.6</b>	<b>+1.0</b>
incl. long term share of financial debt	4.9	4.3	+0.6
<b>Current liabilities</b>	<b>35.5</b>	<b>35.9</b>	<b>(0.3)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>100.4</b>	<b>96.7</b>	<b>+3.8</b>
<b>Ratio Long term debts / Shareholder's equity</b>	<b>8.4%</b>	<b>7.7%</b>	

- » A low indebtedness ratio (long-term financial debt over shareholders equity) of 8.4%

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)



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## » An adverse context of exchange rates

(Euro vs Currency)	US \$	JPY	KRW
<b>Opening rate FY07</b>	<b>1.2954</b>	<b>157.27</b>	<b>1219.17</b>
<b>Closing rate FY07</b>	<b>1.4870</b>	<b>157.93</b>	<b>1404.03</b>
<b>Gap</b>	<b>-14.8%</b>	<b>-0.4%</b>	<b>-15.2%</b>

## » Improvement of profitability in volume

M. €	FY07 in volume	FY06 real rates	%Δ	Δ	FY07 real rates	%Δ	Δ
<b>Total revenues</b>	<b>71.65</b>	<b>66.02</b>	<b>8.5%</b>	<b>+5.6</b>	<b>68.85</b>	<b>(3.9)%</b>	<b>(2.8)</b>
<b>Total of costs</b>	<b>(65.01)</b>	<b>(60.39)</b>	<b>7.6%</b>	<b>(4.6)</b>	<b>(63.18)</b>	<b>(2.8)%</b>	<b>+1.8</b>
% of total revenues	(90.7)%	(91.5)%			(91.8)%		
<b>Operating Result</b>	<b>6.63</b>	<b>5.62</b>	<b>18.0%</b>	<b>+1.0</b>	<b>5.67</b>	<b>(14.5)%</b>	<b>(1.0)</b>
% of total revenues	9.3%	8.5%			8.2%		

» Operating margin in volume reaches 9.3%.

## » Free cash flow improvement

M.€	FY07	FY06	Δ
<b>Net result</b>	<b>2.4</b>	<b>2.5</b>	<b>(0.2)</b>
<b>Net cash flow from operations</b>	<b>2.5</b>	<b>2.6</b>	<b>(0.2)</b>
Accounts receivable	(0.6)	(5.6)	5.0
Other currents assets	4.4	1.1	3.2
<b>Increase in working capital</b>	<b>3.8</b>	<b>(4.4)</b>	<b>8.2</b>
<b>Net cash flow from operating activities</b>	<b>6.2</b>	<b>(1.8)</b>	<b>8.0</b>
Purchase of intangibles	(0.6)	(2.1)	1.5
Purchase of property and equipments	(1.3)	(1.9)	0.5
Others	0.0	0.1	(0.1)
<b>Net cash used for investing activities</b>	<b>(1.9)</b>	<b>(3.8)</b>	<b>2.0</b>
Capital growings	(0.7)	1.7	(2.4)
Others	(0.3)	0.1	(0.3)
<b>Net cash used in financing activities</b>	<b>(0.9)</b>	<b>1.8</b>	<b>(2.7)</b>
<b>Exchange rate impact</b>	<b>(0.0)</b>	<b>(0.7)</b>	<b>0.7</b>
<b>Net movement</b>	<b>3.4</b>	<b>(4.6)</b>	<b>8.0</b>
Total available cash (beginning of the year)	9.7	14.3	(4.6)
Total available cash (closing)	13.1	9.7	3.4

» Improvement of cash situation is a result of a significant increase in free cash flow, and notably working capital movement, as well as controlled capital investments

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

