Lectra

# 2011 ANNUAL REPORT

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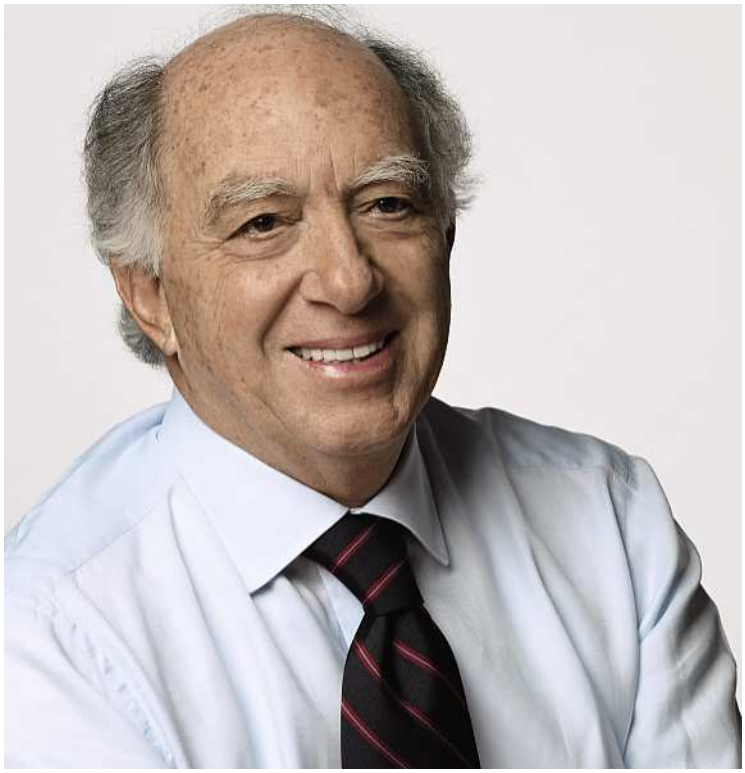
LECTRA IS THE WORLD LEADER in integrated technology solutions—software, CAD/CAM hardware, and associated services—specifically designed for industries using textiles, leather, industrial fabrics, or composites to manufacture their products. It serves major world markets: fashion, automotive, and furniture as well as a broad array of other industries including aeronautics, marine, wind turbine, etc. A transnational company, Lectra develops long-term relationships with its 23,000 customers in more than 100 countries. Its state-of-the-art technologies and the expertise of its 1,350 employees establish Lectra as the recognized standard. Lectra's solutions, specific to each industry, enable customers to automate, streamline, and accelerate product design, development, and manufacturing. In the fashion industry, they make it possible to plan and manage the full life cycle of each collection while developing brand heritage. Established in 1973 and based in France, Lectra is listed on NYSE Euronext.



**André Harari**
Chairman of the Board
of Directors

**Daniel Harari**
Chief Executive Officer

# INTERVIEW

RECORD EARNINGS FOR THE SECOND CONSECUTIVE YEAR. ALL THE MORE REMARKABLE GIVEN THE WORSE-THAN-EXPECTED MACROECONOMIC ENVIRONMENT, LECTRA'S 2011 PERFORMANCE ONCE AGAIN CONFIRMS THE RELEVANCE OF ITS BUSINESS MODEL AND THE EFFECTIVENESS OF ITS LONG-TERM STRATEGY. WITH EVEN FURTHER REINFORCED OPERATING RATIOS AND BALANCE SHEET, LECTRA IS ACCELERATING ITS ROADMAP IN 2012 TO FULLY ACHIEVE ITS GROWTH POTENTIAL, AS SOON AS THE CRISIS IS DEFINITIVELY OVER.

**The rebound in activity in 2010 enabled you to enter 2011 under good conditions. How did the year work out?**

**André Harari:** The previous year's record earnings set a high basis of comparison for 2011. Yet we improved on that performance, setting new records once again. After the 20% rise in 2010, following steep falls in 2008 and 2009, our revenues again rose 10% to reach €205.9 million. Income from operations before non-recurring items was up 35%, at €28.9 million. Our operating margin passed a new milestone with a rise of 2.7 percentage points to 14%. And our net income reached €19.2 million. For the first time, it represented 9.3% of revenues.

Consistent with our central scenario announced on February 10, 2011, this performance is all the more remarkable given the worse-than-expected macroeconomic environment.
Our balance sheet continued its transformation. It is now particularly strong: the net financial debt of €56.4 million at the end of 2008 has been replaced by a net cash of €8.6 million, and shareholders' equity has increased to €58.7 million, eliminating any liquidity risk for the coming years. Compared to 2007, the last year before the crisis, income from operations before non-recurring items has been multiplied by 2.5, despite a 6% fall in revenues, and our operating margin has gone from 5% to 14%. This performance is a direct result of the strategic roadmap formulated at the end of 2009 and fully demonstrates its relevance.

**Daniel Harari:** In 2010, our orders for new software licenses and CAD/CAM equipment rebounded 51%. In 2011, the two half-years were very different from each other: the first followed the trend of the previous months, with a very steadfast growth in orders. This trend stopped in the third quarter, and in the fourth, orders fell sharply, as the concerns of our customers in light of the worsening global economic environment drastically slowed their investments. For the full year, orders remained stable.

**Are there still tangible disparities among the world's regions?**

**Daniel Harari:** They are even greater, actually. Before the crisis, emerging countries accounted for 41% of our orders. Now that share has increased to 53%. Scrutinizing the geographic evolution more closely, we find that our orders in the Americas, which represented 22% of the total, have increased 17%, driven by the United States, Mexico, and Brazil. In the Asia-Pacific region, they have increased 10% to reach 36% of the total. In Europe, meanwhile, they are down 5%, despite the strong growth in Eastern European countries which maintained Europe's overall share at 37%.
Compared to 2007, we are still lagging behind by 27%. But some countries have largely surpassed their pre-crisis levels. As such, orders have risen 17% in China, 28% in Brazil, and 77% in Mexico. These numbers reveal a widening split between the new and old economies.

**Have you also seen differences in rhythm among your market sectors?**

**Daniel Harari:** 2011 was also a record year for the automotive market. For the first time, its share approached that of fashion: the former accounted for 41% of orders and the latter for 45%. In 2010, the automotive sector accounted for 26%, and fashion 58%. Their respective changes in 2011 were +64% and –22%.

"COMPARED TO 2007, THE LAST YEAR BEFORE THE CRISIS, INCOME FROM OPERATIONS BEFORE NON-RECURRING ITEMS HAS BEEN MULTIPLIED BY 2.5, DESPITE A 6% FALL IN REVENUES, AND OUR OPERATING MARGIN HAS GONE FROM 5% TO 14%."

"NOW ACCOUNTING FOR A MAJORITY SHARE OF BUSINESS ACTIVITY, EMERGING COUNTRIES—LED BY CHINA, BRAZIL, AND MEXICO—HAVE SURPASSED THEIR PRE-CRISIS LEVELS."

**For the past several years, your business model has enabled you to successfully weather crises, grow during times of difficulty, and generate a high level of free cash flow. How do you account for that success?**

**André Harari:** The company has profoundly changed. Our teams have battled on every front. Our investments have been significant. Our margins have increased on every product line, despite intensified competition as result of the crisis. Between 2007 and 2011, we reduced our fixed overheads nearly 20%. And we erased our financial debt thanks to the free cash flow generated. Our recurring revenues fully played their cushioning role during the crisis. And since 2010, revenues from new systems sales have once again become our growth driver, with a rise of 18% in 2011.

**Given that the emerging countries are now your main markets and that your competitors have shifted their production to China, why have you maintained your production and R&D in France?**

**André Harari:** This decision came after deep consideration. In 2005, we carried out a study on the benefits of a possible relocation. This exercise led us to maintain these activities in France, despite higher wage costs and the disadvantages of manufacturing in the euro zone when selling to the dollar or yuan zones, unlike our competitors. Despite this decision which contradicted that of our competitors and numerous industrial companies and which was met with pressure from certain investors, time has now fully vindicated our decision. While protecting our industrial property, we have successfully met three challenges. First, we have faced competition with the low-cost products of our international competitors that had relocated to China and those of our Asian competitors: increasing wages and social charges, as well as inflation and the appreciation of the Chinese yuan, are now significantly impacting their production costs. Second, we have increased our competitiveness despite a persistently weak dollar/euro parity. Finally, we have continuously boosted our margins, bringing their global figure to their highest historic level.

**Daniel Harari:** As soon as this decision was made, we instigated a comprehensive reengineering of our line of automated cutters. Our efforts yielded major gains in manufacturing costs. Today, our price costs in France are roughly equivalent to what they would have been in China. Maintaining R&D in immediate proximity to production contributes significantly to our capacity to innovate. While our competitors are fighting on price, we have a radically different policy: we are winning on our value proposition, with a greatly superior return on investment and a lower total cost of ownership. Our offer enables our customers to achieve very substantial savings at different stages of their design and production processes.

**Don't you run the risk that Lectra will not be able to respond to a strong growth in sales of CAD/CAM equipment?**

**Daniel Harari:** No. The Bordeaux-Cestas (France) manufacturing site has sufficient capacity to increase its output by 50% with no major new investment and around 50 additional staff members. In order to double the plant's output, only a further 40% of floor space would be required.

**In a general context of spending cuts, how are your R&D investments evolving?**

**Daniel Harari:** R&D is a priority for Lectra. In 2011, our expenses in this area represented €18.2 million, or 9% of our revenues. Altogether, 220 engineers—16% of our workforce—are dedicated to research. That gives an idea of the central role innovation plays in our strategy. I might add that, while we have spent €165 million over the past ten years, this technological heritage is valued at zero in our balance sheet, as our R&D spending is fully expensed each year. At no time during the crisis have we cut these investments. They have enabled us to reinforce our technological leadership every year. Take Versalis, for example, our new range of automated leather cutters for the automotive, furniture, and leather goods industries, unparalleled on the market. Or Version 7 of Modaris, our pattern-making software for fashion—the industry standard, used in particular by all the major French and Italian luxury fashion brands—which now integrates 3D and 2D and enables users to switch back and forth between the two to optimize the proper fit of clothing: a major advance.

**At a time when the risks of companies relating to the economic context are at the center of investor concern, what is your exposure?**

**André Harari:** Since the onset of the crisis in 2008, the worsening macroeconomic environment has constituted the main risk for the Group. Outside periods of severe crisis, the risks associated with our activity are hedged naturally, with sales and services throughout the world and their spread across major market sectors with different business cycles and growth rates, enabling the risks to offset each other. Our geographic exposure is balanced. Nearly 85% of our 2011 revenues came from 10 countries or groups of countries—Brazil, China, France, Germany and Eastern European countries, Italy, Japan, Portugal, South Korea, Spain, the United States and Mexico—but none represented more than 15%. The vast changes accompanying globalization translate into a drop in revenues in one country and a rise in another. Because of our strong presence in emerging countries, which are forecast to generate half of global growth in the coming decade, we are armed to make this a vector of dynamic growth. The other half of global growth is expected to come from developed countries, where our market share has long been significant.

**Daniel Harari:** Although we have developed long-term partnerships with major international groups, we are still not exposed to a risk of strong concentration. Our top 10 customers combined account for less than 20% of our revenues. Our installed base spans 23,000 customers in 100 countries. Every year, sales of new systems—50% of total revenues—are achieved with around 2,000 customers, and recurring contracts—30% of total revenues—with close to two-thirds of our customers. And the sales of spare parts and consumables—20% of revenues—are carried out for the great majority of Lectra CAD/CAM equipment installed throughout the world.

"WHILE OUR COMPETITORS ARE FIGHTING ON PRICE, WE HAVE A RADICALLY DIFFERENT POLICY: WE ARE WINNING ON OUR VALUE PROPOSITION, WITH A GREATLY SUPERIOR RETURN ON INVESTMENT."

"WE HAVE DECIDED TO GIVE PRECEDENCE TO OUR LONG-TERM STRATEGY RATHER THAN TO PROFITABILITY IN 2012, AND TO ACCELERATE OUR COMPANY'S TRANSFORMATION, SO AS TO FULLY ACHIEVE ITS GROWTH POTENTIAL IN ITS MOST PROMISING MARKETS."

**The year 2011 ended with the return to a situation of economic, financial, and monetary crisis. 2012 appears as though it, too, will be not only difficult but also unpredictable: isn't it risky to give precedence to your long-term strategy?**

**André Harari:** Launching initiatives aimed at building for the future and taking controlled risks are part of our DNA as entrepreneurs. Daniel and I have decided to give precedence to our long-term strategy, with the same major objectives as before, rather than to profitability in 2012, which will remain nonetheless above its pre-crisis level. This decision, both responsible and necessary, confirms our determination and our ambition. Our priority is to bolster the strategic roadmap we formulated at the end of 2009 in order to accelerate Lectra's growth and its capacity to create value for its customers, and hence also for its teams and its shareholders. Innovation, human capital, and proximity to our customers are now more than ever the driving forces of the company's leadership. That is why strengthening its sales and marketing teams and pursuing its steadfast investment in R&D constitute the keys to accelerating the company's transformation over the next 24 months. This will enable it to fully achieve, once the crisis is over, its growth potential in its most promising geographic markets and market sectors. These investments for building the future correspond to a reinvestment of just two percentage points of our operating margin in 2012 and will produce their full effects in 2013 and 2014.

**What are your hypotheses for business activity and earnings for 2012?**

**Daniel Harari:** Although the scale and duration of the crisis are uncertain, I notice every day that, even more than deteriorating macroeconomic conditions, it is the alternation of good news and bad news which weighs heavily on our customers' investment decisions. Even so, I am confident. Our financial and operating fundamentals have been transformed relative to 2008-2009. They give us the means to enter 2012 under the best conditions and in complete security, which is invaluable in the current environment. The sharp drop in sales activity in the closing months of 2011 penalized our order backlog at the beginning of the year, and the main uncertainty concerns the level of revenues from new systems sales.

Even so, 2012 will be a year of solid performance. Assuming economic conditions in the first half of the year remain as deteriorated as they were at the end of 2011 and then return to their level of the first half of 2011, revenues at actual exchange rates would remain stable. Income from operations before non-recurring items would come to around €21 million; operating margin would be around 10%; and net income would be around €14 million. Our ambition is, of course, to achieve higher growth, and the leverage effect remains significant.
Our operating margin will remain superior to its pre-crisis level, even if the economy should remain as weak throughout the year as it was at the end of 2011. In that case, with estimated revenues of €190 million, our net income would come to around €10 million, still reflecting a high level of profitability.

**André Harari:** To conclude, if we remain properly cautious and vigilant, Lectra is well armed to continue to weather the crisis while gaining in strength and to confront the new global challenges that will follow. The major technological, commercial, and human assets that we have just described will enable it to respond to the needs and exigencies of our customers, who must make good the investments they have postponed over several years, to acquire the technologies necessary to boost their competitiveness. As a result, we will go on financing our organic growth in the medium term out of our own cash, continue our dividend payment policy, and preserve our cash in order to finance targeted acquisitions in the future, should such opportunities arise.

"EVEN MORE THAN DETERIORATING MACROECONOMIC CONDITIONS, IT IS THE ALTERNATION OF GOOD NEWS AND BAD NEWS WHICH WEIGHS HEAVILY ON OUR CUSTOMERS' INVESTMENT DECISIONS. EVEN SO, 2012 WILL BE A YEAR OF SOLID PERFORMANCE."

# STRATEGY AND BUSINESS MODEL

LECTRA'S CLEAR AND AMBITIOUS STRATEGIC ROADMAP, FORMULATED IN LATE 2009 TO ENABLE IT TO EMERGE STRONGER FROM THE CRISIS, TO PREPARE FOR THE NEW CHALLENGES OF THE POST-CRISIS ECONOMY, AND TO SEIZE THE RESULTING OPPORTUNITIES, HAS PROVED ITS PERTINENCE AND THE STRENGTH OF THE COMPANY'S BUSINESS MODEL. LECTRA HAS DECIDED TO GIVE PRECEDENCE TO ITS LONG-TERM STRATEGY IN 2012 AND TO ACCELERATE ITS TRANSFORMATION.

## 1. A pure player

Lectra has one single business: providing innovative, global technology solutions (software, CAD/CAM equipment, and related services) with a high added value designed for major worldwide markets: fashion, automotive, furniture, and a wide variety of other industries—aeronautics, marine, wind turbine, sports equipment, personal protective equipment, etc. The common ground: the use of soft materials—textiles, leathers, industrial fabrics, and composites—all having design, development, and manufacturing constraints requiring very specific technologies and expertise. Its ambition: reinvent the rules of the industry to boost its leadership.

**40** YEARS OF EXPERTISE

**23,000** CUSTOMERS IN 100 COUNTRIES

**1** SINGLE BUSINESS FOR WORLDWIDE MARKETS

## 2. A relational value player

Lectra develops long-term relationships with its customers to support their development and contribute to overcoming their strategic challenges which have been amplified by the crisis: maintain their know-how, develop and protect their brand universe over the long term, achieve ever-greater creativity, quality, and responsiveness, improve competitiveness, increase productivity and flexibility, reduce costs and time-to-market, and facilitate collaborative work and secure data sharing. Lectra offers them personalized support, based on the most advanced technologies and its extensive expertise in their businesses, ensuring them the best return on investment and the lowest total cost of ownership.

**2/3** OF CUSTOMERS ON RECURRING CONTRACTS

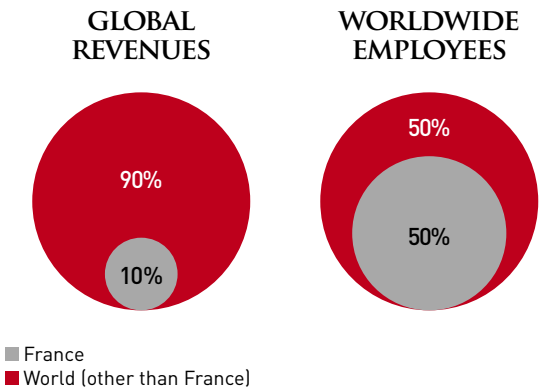
**50,000** CALLS PER MONTH HANDLED BY THE 5 CALL CENTERS

**67%** OF THE CALLS FOR THE LATEST GENERATION EQUIPMENT AND 98% FOR SOFTWARE RESOLVED ON-LINE

**98%** UPTIME OF CUTTING SYSTEMS IN THE AUTOMOTIVE INDUSTRY USED 24 HOURS A DAY, 7 DAYS A WEEK, WHEN CONNECTED TO CALL CENTERS

## 3. A truly transnational company

Based in France, Lectra has built up a major worldwide presence since the 1980s, with solidly proven infrastructures. Since 2000, it is number one worldwide in its field: number one in each of its main market sectors and geographic markets, and number two in the majority of the others. In 2011, close to 85% of total revenues was generated in 10 countries or country groups (Brazil, China, France, Germany and Eastern European countries, Italy, Japan, Portugal, South Korea, Spain, the United States and Mexico), none of which accounts individually for more than 15%.




## 4. A long-term strategy

The post-crisis world will be different, with upheavals in regulations, a new distribution of global growth, transformations in companies' value propositions and business models, and a redistribution of positions in all geographic and industrial markets. Lectra's 2010-2012 strategic roadmap, formulated in late 2009, aims to "reset" the company for this new economic order, the "reset economy." To build its future and its future growth on solid foundations, it has accelerated vital reforms and initiated decisive projects, while demonstrating its ambition and a winning spirit.

### 5 STRATEGIC OBJECTIVES

- **Accentuate Lectra's technological leadership** and the high added value of its products and services offer across all markets.
- **Strengthen Lectra's competitive position** and long-term relationships with its customers.
- **Accelerate organic growth** once the economic crisis is over.
- **Boost profitability** by regularly increasing the company's operating margin.
- **Generate free cash flow** enabling Lectra to finance future growth from its own cash.

## 5. A stable entrepreneurial shareholder structure for sustainable and profitable growth

Lectra is a great entrepreneurial adventure. Its leaders and teams have demonstrated their willingness to move forward in the difficult context of the crisis with pragmatism, determination, and perseverance. Find the answers to any challenge, instill energy and courage, and never give up. Have a clear vision, be willing to take controlled risks, seize opportunities, constantly reinvent. Build the long-term. Its solid financial fundamentals and its stable entrepreneurial shareholder structure—its two executive directors hold close to 40% of the capital—enable it to allocate significant investments in research and development, infrastructures, and human capital every year.

### CREATE LONG-TERM VALUE FOR LECTRA CUSTOMERS,

IN TURN CREATING VALUE FOR ITS TEAMS AND ITS SHAREHOLDERS

- **Continue to finance from its own cash** the company's organic growth.
- **Pursue the dividend payment policy.**
- **Preserve cash** in order to finance targeted acquisitions in the future, should such opportunities arise.

**6. A passion for innovation, driving force of competitiveness**

Lectra is the only player in its field able to offer such a wide range of products and services, designed to meet the specific needs of each of its markets in the context of a globalized economy. 70% of the *savoir-faire* and technologies it develops are common to all sectors which thereby benefit from significant synergies. Despite the crisis, Lectra has continued to invest steadfastly to renew and increase its technological leadership and develop its offer. Customer front-runners, involved from the beginning of development, enable it to respond to their future challenges and to integrate the industry best practices in its products and services offer.

€86 MILLION
INVESTED IN R&D SINCE 2007

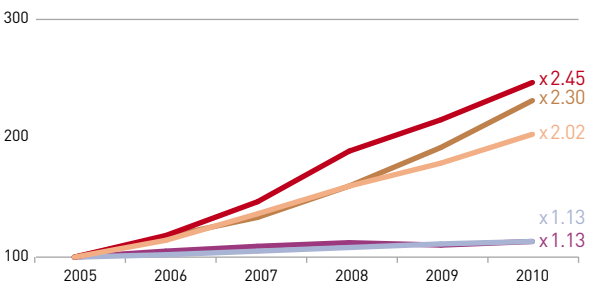
9% OF REVENUES

220 R&D ENGINEERS

**7. A DNA preserved by maintaining R&D and production in France**

The decision made in 2005 to maintain R&D and production in France enabled Lectra, through innovation, to meet three challenges: face competition with the low-cost products of its international competitors that had relocated to China and those of its Asian competitors, increase its competitiveness even in the event of a persistently weak dollar/euro parity, and boost margins. It also made it possible to protect its industrial property. Whereas in China, the rise in wages and social charges, inflation, and the appreciation of the yuan have affected cost prices, the significant progression in profit margins confirms the competitiveness and the strong added value of Lectra's offer.

**Salary evolution**




Base 100 at January 1, 2005

China (in $)) China (in €) China (in Yuan)
United States (in $) Europe (in €)

**8. A solid business model, reinforced security**

Lectra's business model generates an annual free cash flow exceeding net income*. It is based on a balance of activity-related risks, which benefit from natural hedging by their distribution over: large market sectors with cycles that are different from each other; the entire world, taking advantage of the dissimilar growth rates of emerging countries and developed countries; 23,000 customers; and a widespread products and services offer. Revenues from new systems sales are the growth driver in periods of macroeconomic growth; recurring revenues (recurring contracts, spare parts and consumables) are a stabilizing factor and provide a cushion in periods of difficult economic conditions.

* In the hypothesis that the annual research tax credit applicable in France is used or received.

80% OF FIXED OVERHEAD COSTS ARE COVERED BY THE GROSS PROFIT GENERATED BY RECURRING REVENUES


Principle revenue components

**9. Promising markets**

Eight economies (Brazil, Russia, India, China, South Korea, Indonesia, Mexico, Turkey) are expected to produce half of global growth over this decade. Lectra is armed to make this a dynamic growth vector. The other half of global growth will continue to come from developed countries. Lectra already holds a significant market share in those areas.

## 5 GROWTH ACCELERATORS

- Emerging countries
- Automotive market
- Leather
- PLM for fashion
- 3D for fashion

**10. Priority in 2012 given to transforming the company**

Lectra has decided to give precedence to its long-term strategy rather than to profitability in 2012, which will remain nonetheless above its pre-crisis level. Its priority: bolster the company's strategic roadmap to enable it to fully achieve its growth potential in its most promising geographic markets and market sectors. Innovation, human capital, and proximity to customers will remain the driving forces of its leadership. The strengthening of its sales and marketing teams and the pursuit of its steadfast investments in R&D constitute the keys to the company's transformation plan over the next 24 months.

**200** RECRUITMENTS OVER THE NEXT 24 MONTHS

**2** OPERATING MARGIN PERCENTAGE POINTS REINVESTED IN 2012

PRIORITY: UNITED STATES, CHINA, GERMANY AND EASTERN EUROPEAN COUNTRIES, AND BRAZIL

## COMPANY HISTORY

**1973** Company founded.

**1976** First computer-aided design (CAD) systems sold. André Harari meets Lectra's two founders and raises the first funds. His investment firm gradually becomes Lectra's second biggest shareholder.

**1985** Lectra becomes world leader in CAD solutions for the apparel industry and enters the CAM market.

**1987** Initial public offering.

**1991** After the company's serious financial crisis of 1990, André Harari and Daniel Harari recapitalize the company and take over its management. Strategic redeployment plan: extensive R&D program, overhaul of the company's entire product range, new market sectors, new business model.

**2000** Lectra becomes number one worldwide.

**2005** End of textile quotas. Lectra boosts its evolution to match its new challenges.

**2007** New technology offer—the result of five years of R&D—unveiled at Lectra World 2007.

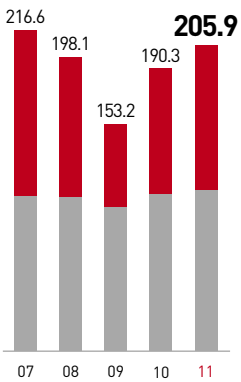
**2008-2009** Lectra is severely affected by consequences of the worldwide crisis. Reduction of overhead costs, safeguarding its core assets. Steadfast investments in R&D. New strategic roadmap to prepare for the post-crisis economy.

**2010-2011** Lectra proves its resilience. Very strong rebound in sales activity. Record income and free cash flow.

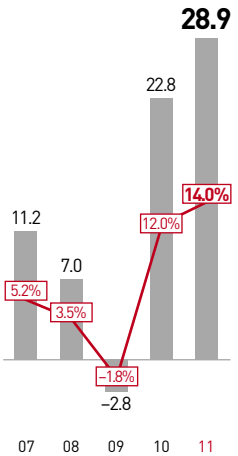
# KEY FIGURES

(in millions of euros)

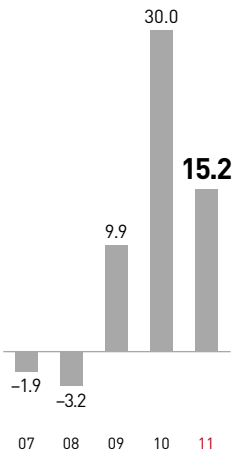
**Revenues**



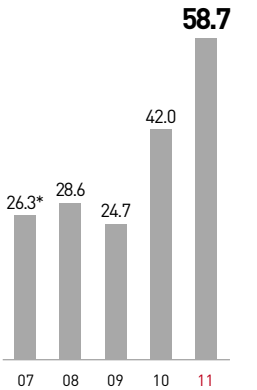

**Income from operations***




**Free cash flow***



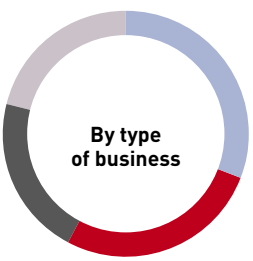

**Shareholders' equity**




| **Financial highlights** in millions of euros | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Revenues | **205.9** | 190.3 | 153.2 | 198.1 | 216.6 |
| Income from operations before non-recurring items[1] | **28.9** | 22.8 | (2.8) | 7.0 | 11.2 |
| Income from operations[1] | **28.9** | 25.1 | (4.7) | 7.0 | 10.2 |
| Net income | **19.2** | 15.6 | (3.6) | 3.2 | 5.8 |
| Free cash flow before non-recurring items[2] | **15.2** | 30.0 | 9.9 | (3.2) | (1.9) |
| Free cash flow[2] | **14.2** | 44.4 | 9.3 | (4.8) | (8.3) |
| Shareholders' equity[3][4] | **58.7** | 42.0 | 24.7 | 28.6 | 26.3 |
| Net cash (+) / net financial debt (–)[3][4] | **8.6** | (2.4) | (47.8) | (56.4) | (50.8) |
| Research and development[5] | **18.2** | 16.1 | 16.2 | 18.3 | 17.4 |
| Capital expenditure | **3.7** | 2.2 | 2.1 | 3.6 | 5.2 |
| Number of employees[3] | **1,338** | 1,326 | 1,374 | 1,518 | 1,551 |

(1) The (French) research tax credit *(crédit d'impôt recherche)* is deducted from R&D expenses and included in income from operations.
(2) The company benefited from the advance repayment of €6.1 million in 2010 and €14.1 million in 2009, corresponding to research tax credits, resulting from the French government's economic stimulus plan measures.
(3) At December 31.
(4) In 2007, Lectra carried out a public stock buyback tender offer for 20% of its capital stock, financed by a €48 million medium term bank loan.
(5) Before research tax credit and grants for R&D programs deduction.

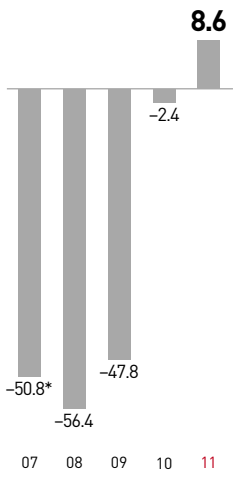
**Revenues**



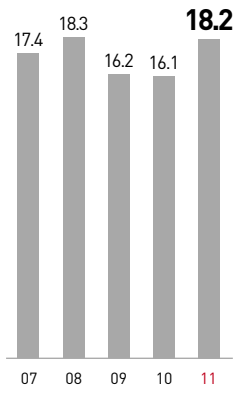

| | |
|---|---|
| CAD/CAM equipment | 31% |
| Software | 27% |
| Services (training, consulting, hardware maintenance, on-line services) | 21% |
| Spare parts and consumables | 21% |

**Net cash (+) / net financial debt (–)***

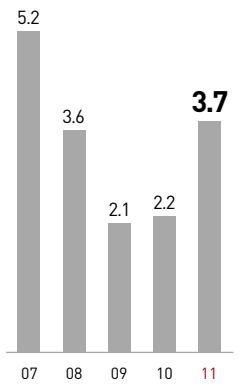
* After public stock buyback tender offer for 20% of capital stock carried out in 2007.

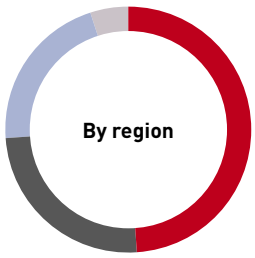



**Research and development**




**Capital expenditure**



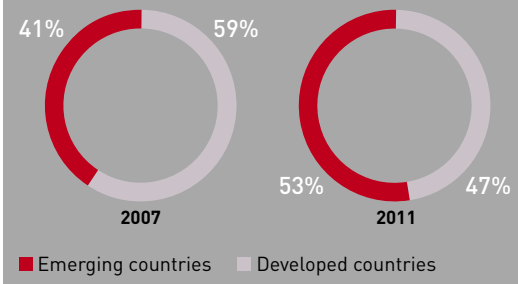

| | |
|---|---|
| Europe | 48% |
| Asia-Pacific | 26% |
| Americas | 21% |
| Other countries | 5% |


| | |
|---|---|
| Fashion | 49% |
| Automotive | 38% |
| Furniture | 6% |
| Other industries | 7% |

* Revenues from new systems sales.

**Emerging countries share has become predominant**

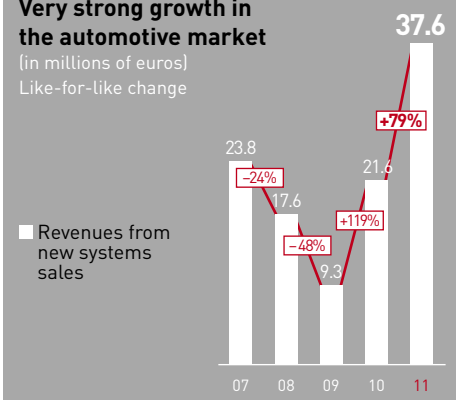
% of orders for CAD/CAM software and equipment




Growth in emerging countries was 7% in 2011, while developed countries were down 3%. The vitality of the emerging countries, driven by China (+17% compared to 2007), Brazil (+28%), and Mexico (+77%), has enabled them to catch up after their shortfall, now limited to only 6% compared to 2007, the last pre-crisis year. Developed countries still lag behind by 42%. The overall decline between 2007 and 2010 remains 27%.

**Very strong growth in the automotive market**

(in millions of euros)
Like-for-like change




Orders in the automotive market, significantly affected by the crisis in 2008 and 2009, bounced back strongly and have quadrupled in two years. Since 2007, their growth has been close to 60%, simultaneously demonstrating not only automotive parts manufacturers' changing needs for new technologies in the production of car seats and interiors and airbags but also the competitiveness and exceptional productivity of Lectra's offer. This growth occurred in Europe as well as in the Americas and in Asia.

"THE 35% RISE IN INCOME FROM OPERATIONS ON 10% REVENUE GROWTH DEMONSTRATES LECTRA'S EFFECTIVENESS IN CONSTANTLY BOOSTING ITS PROFITABILITY."

**Jérôme Viala**
Chief Financial Officer
Member of the Executive Committee

# INTERVIEW

**What do you conclude from Lectra's very strong earnings growth in 2011?**

**Jérôme Viala:** The 10% growth in revenues was driven mainly by an 18% rise in revenues from new systems sales, with recurring revenues rising 3%. Our gross profit margins are up on all our product lines, demonstrating the competitiveness and added value of our offer. And the 35% rise in income from operations before non-recurring items represents close to 40% of our revenue growth. Beyond setting records yet again, these figures highlight the company's effectiveness in constantly boosting its productivity and in achieving particularly profitable and sustainable growth. Its profitability has continued to grow, and the operating margin—which was 5% in 2007, the last year before the onset of the crisis, and which fell to approximately a negative 2% in 2009—has reached a new historic record at 14%.

**Will Lectra continue with the radical balance sheet transformation seen in the past two years?**

**Jérôme Viala:** The free cash flow of €14.2 million in 2011—which would have exceeded net income by €1.5 million if we had received the research tax credit—continues to demonstrate

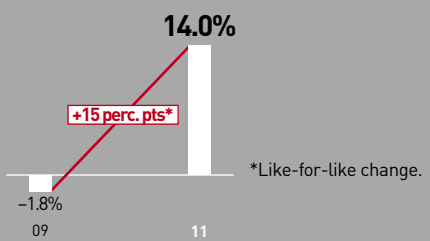
## TRANSFORMED BALANCE SHEET, FUNDAMENTALS, AND OPERATING RATIOS

(in millions of euros)

**Structurally negative working capital requirement**
The working capital requirement, after restating for the unreceived (French) research tax credit (€10.1 million), is negative at €11.5 million, a strong characteristic of Lectra's business model.

-€11.5
MILLION

**Record operating margin**
The operating margin before non-recurring items, for the second year in a row, has reached a new historic level, a performance all the more remarkable given the economic context in 2011.




*Like-for-like change.

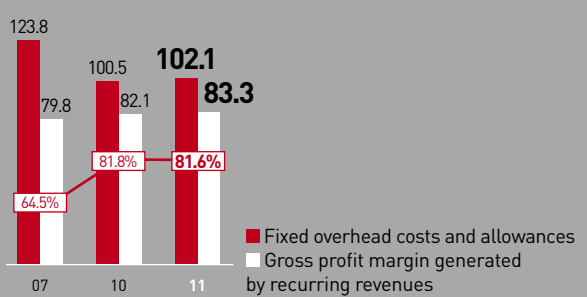
the virtuous character of our business model, which is reinforced year after year. And the same goes for our structurally negative working capital requirement of €11.5 million, after restating for the research tax credit receivable. Our net cash is now positive at €8.6 million. With available cash of €26.3 million—after declaring €5.2 million in dividends and a second early repayment of €10 million, at our initiative, of the medium-term bank loan—and with financial debt back down to €17.7 million, on shareholders' equity increased to €58.7 million, our balance sheet has been transformed. And we expect further improvement in 2012, as expected net income and free cash flow will strengthen it all the more. Our capital expenditures will remain at €5 or €6 million—I would like to recall that R&D spending is fully expensed in the year.

### What are your key financial parameters for 2012?

**Jérôme Viala:** Building on our excellent results in 2010 and 2011 and on the financial security they provide, we have decided to reinvest two percentage points of our operating margin into the acceleration of our company transformation plan in 2012. As a precaution, our recruitment plan has been scheduled in a number of successive phases, enabling us to increase the pace if the economy permits, or to slow down if conditions worsen sharply. Given the significant reductions in overhead costs already achieved since the onset of the crisis, this spending on future development will only partially be offset by further reductions in operating costs. We continue to keep a tight grip on our fixed overhead costs, which will come to around €112.5 million, an 8.6% increase—half of which will be related to the acceleration of the company transformation plan. We expect to see a slight rise in recurring revenues. The main uncertainty still concerns the level of revenues from new systems sales. The leverage effect remains significant, as every €1 million in revenue from new systems sales added translates into an increase of approximately €0.45 million in income from operations. As for the security ratio—the coverage of annual fixed overhead costs by the gross profit generated by recurring revenues—this will remain close to 78%. It is this high security ratio that justifies our decision to give precedence to our long-term strategy rather than to profitability in 2012, which will nonetheless remain higher than its pre-crisis level.

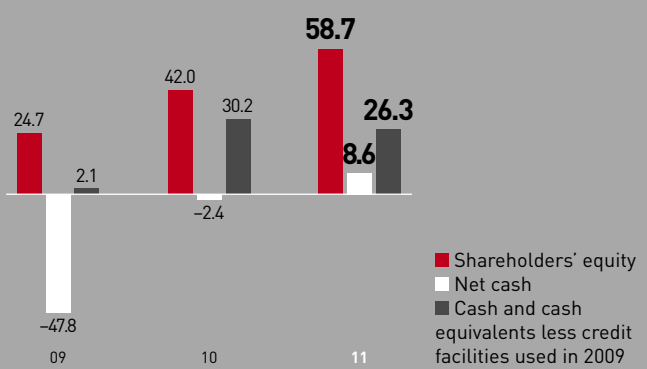
**High security ratio**

The security ratio is a key performance indicator of Lectra's management. It measures the percentage of annual fixed overhead costs covered by the gross profit generated by recurring revenues. It has increased 17 percentage points in four years, as a result of measures taken to reduce fixed overhead costs (–€23 million, or –18%) and a 3% increase in the gross profit generated by recurring revenues.




**Balance sheet now very strong**

The significant rise in net income in 2010 and 2011 and the cumulated free cash flow of €58.6 million enabled the company to increase shareholders' equity by €34 million, erase financial borrowings, and return to a positive net cash position of €8.6 million.



**Véronique Zoccoletto**
Chief Human Capital Officer,
Chief Information Officer,
Member of the Executive Committee

"OUR AMBITION IS TO DEVELOP AND CONSOLIDATE LECTRA'S POSITION AS WORLD NUMBER ONE. INNOVATION AND PROXIMITY TO OUR CUSTOMERS ARE NOW MORE THAN EVER THE DRIVING FORCES OF ITS LEADERSHIP."

# INTERVIEW

**Despite the tough and uncertain conditions in 2012, you decided to accelerate Lectra's transformation: how will you develop human capital and reallocate resources throughout the world?**

**Véronique Zoccoletto:** Convinced that building the future requires foresight and investment, we have given precedence to a long-term strategy, our established priority being to bolster our roadmap to accelerate growth and the company's capacity to create value for its customers. Human capital—harnessing the knowledge, *savoir-faire,* and skills of the women and men working for the success of the company—is the true driving force of our performance. Developing that will enable us to effectively and sustainably reach our strategic objectives and to strengthen our resilience and our capacity to adapt to change. Our employees' expertise constitutes one of our vital assets. The acceleration of our recruitment plan in France as well as in our international subsidiaries will be spread out over the next 24 months. Recruitment is conducted as closely as possible to our customers, in our most promising geographic markets and market sectors, especially in the United States, China, Germany and Eastern European countries, and Brazil. With 1,350 people throughout the world, we share the same challenges as large multinational corporations. By continuously seeking to make our organization more streamlined and more responsive, by turning the diversity of our workforce into a genuine wealth and uncontestable competitive advantage, and by building on the mobilization of each individual, we are striving towards effective collaboration among the teams and their adhesion to the company's strategic vision through common projects.

**Why are you giving priority and such extensive resources to the sales and marketing teams?**

**Véronique Zoccoletto:** Our ambition is to develop and consolidate Lectra's position as world number one and to fully achieve its growth potential. Innovation and proximity to our customers are now more than ever the driving forces of its leadership. We want to continue to listen closely to our markets, anticipate their changes, accentuate our technological leadership, and reinforce our competitive position by developing strong and sustainable relationships with our customers and by accompanying them as they transform their business models and their organization. In 2011, we continued our investments in the research teams and emphasized our capacity to innovate. In 2012 and 2013, we will develop our marketing and sales forces and our teams of experts in project management and in the businesses of our customers.

**Does this ambition require significant investments in training?**

**Véronique Zoccoletto:** Yes, it does. The acceleration of the company's transformation—the scope of which I've just described—goes hand-in-hand with a major training plan. Created in 2005, Lectra Academy, our worldwide internal training center at Bordeaux-Cestas, is the pillar of this program. We spent more than €3 million on training in 2011, up 50% compared to 2010, representing 4% of the Group's payroll, benefiting more than 85% of employees. We will continue this effort in 2012, deploying our integration and training plan to all the sales, marketing, and consulting teams, placing the accent on the value proposition of Lectra's solutions and on our customers' businesses.

# ETHICAL CONDUCT AND DIVERSITY: ESSENTIAL GENES IN LECTRA'S DNA

Uncompromised ethics in conducting business and respect for each individual are Lectra's foremost values and form the foundation of its philosophy. As for diversity, it has been one of the most fundamental features since its very beginning and extends well beyond barring discrimination of any sort. Lectra's teams operate in 35 countries and represent more than 50 different nationalities. They work side by side every day, drawing enhanced creativity and vigor from their differences.

A STRONG CORPORATE CULTURE BUILT ON FIVE CORE VALUES SHARED BY ALL LECTRA TEAM MEMBERS WORLDWIDE. OPEN-MINDED AND DYNAMIC, IT EMPHASIZES TEAMWORK TRANSCENDING GEOGRAPHIC AND CULTURAL BARRIERS, AS WELL AS A KEEN SENSE OF INDIVIDUAL RESPONSIBILITY. IT HAS FORGED A COMPANY WITH A STRONG IDENTITY, ATTUNED TO THE EVOLUTION OF ITS CUSTOMERS, ITS MARKETS, AND THEIR MACROECONOMIC CYCLES.

## 1. ENTREPRENEURSHIP

Almost 40 years after it was created, Lectra continues to hold true to its fundamentally entrepreneurial spirit. An essential asset for constantly reinventing Lectra and building its future for the new post-crisis world. It values a sense of initiative and the ability to seize opportunities, take controlled risks, and contribute to new projects.

## 2. LEADERSHIP

As the world leader, Lectra has always strived to surpass itself. This aspiration is shared by all Lectra teams, guiding relationships with customers and attitudes towards competitors. A true leader is not content to rest on its success: it recognizes its duties—to lead the way and anticipate the needs of its customers.

## 3. INNOVATION

Lectra's passion for innovation is the driving force of its competitiveness. Lectra has always been a front-runner. Developing new technologies stems from its expertise in its customers' businesses and its capacity to anticipate change. Analyze their challenges, identify their needs, provide them with innovative solutions to support their changes and contribute to their development.

## 4. EXCELLENCE

The quest for excellence in every domain is a constant goal, both individually and collectively. The ongoing search for the highest quality and implementation of best practices benefits from the ongoing dedication, responsibility, and motivation of all team members. These are crucial to bringing each project to a successful conclusion and, ultimately, satisfying all of the company's business partners.

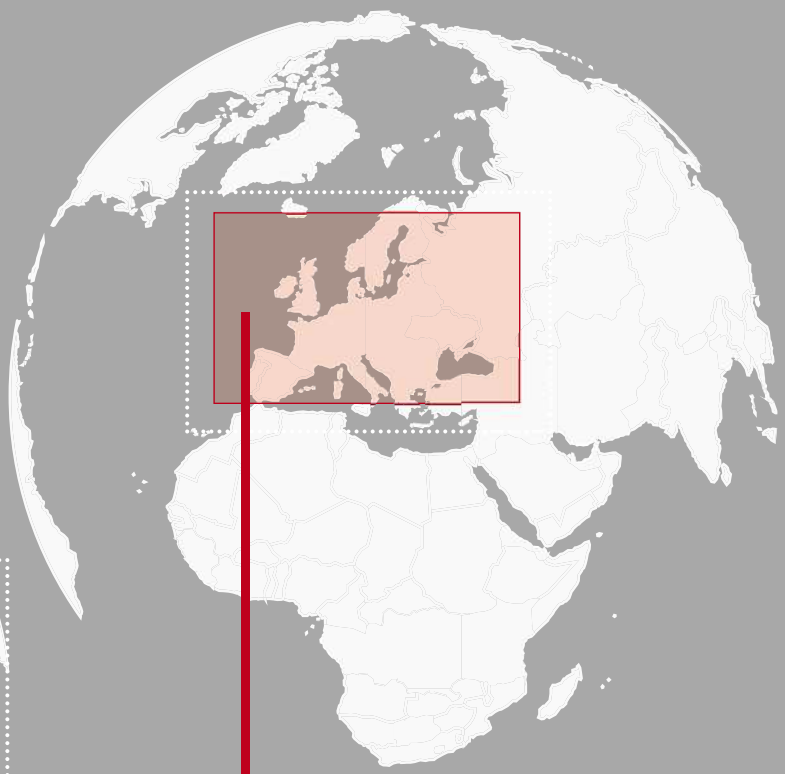
## 5. CUSTOMER CARE

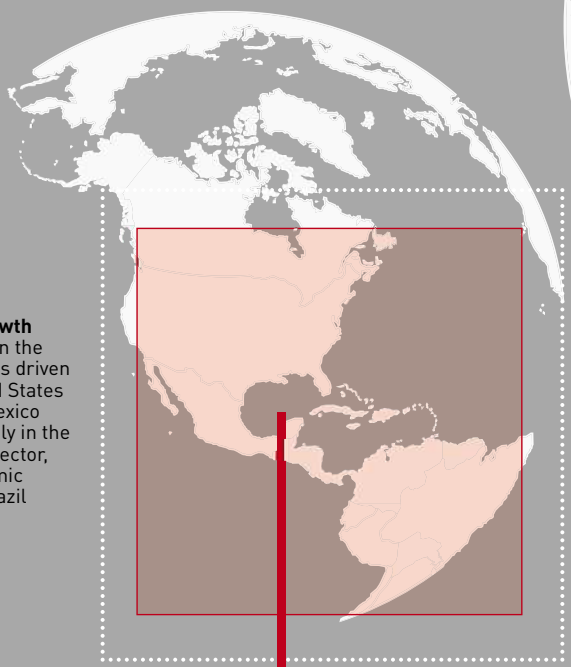
Lectra builds long-term relationships with customers based on trust. Customer loyalty is rooted in the quality and value of its products and services and in the proficiency, responsiveness, expertise, and proximity of its teams. Its success depends on its capacity to best serve them and on its exigency to satisfy them. This mutual loyalty is the pride of the company. Only partnerships built on these foundations can truly create value.

# A TRANSNATIONAL COMPANY

€206 MILLION

2011 revenues





**The 12% growth** in revenues in the Americas was driven by the United States (+7%) and Mexico (+36%), mainly in the automotive sector, and by dynamic activity in Brazil (+21%).

48%
EUROPE

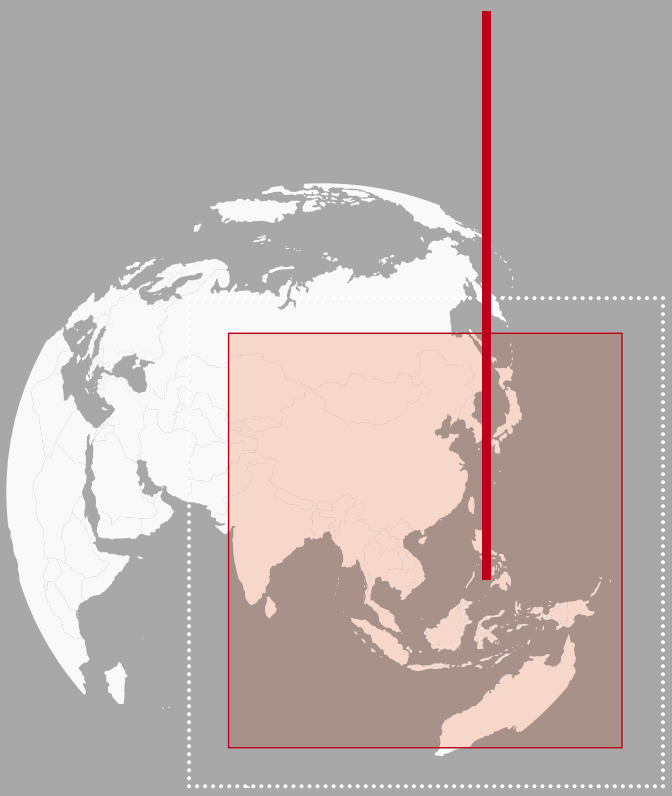
**The 1% growth** in revenues in Europe was driven by Germany and Eastern European countries (+11%), France (+5%), and Portugal (+6%); the United Kingdom was stable, and the other countries were in decline.

21%
AMERICAS

## A WORLDWIDE PRESENCE—CLOSE TO CUSTOMERS

Based in France, Lectra has built up a major worldwide presence unmatched by any of its competitors. It generates 90% of its revenues outside France and 92% directly with customers. This is achieved through its network of 31 subsidiaries. A company without borders, it operates in a multicultural context. With an unparalleled international network, Lectra has a privileged relationship with major brands and manufacturing groups worldwide, accompanying them wherever they are. Its customers benefit from its expertise in their sector and from the *savoir-faire* of both local and international teams to bring projects to a successful conclusion, in each country, and to help them overcome the challenges of operating in a globalized economy. Experts in the five International Call Centers intervene in real time to provide daily assistance to customers and take control over their software and equipment remotely, through a secure Internet connection.

# 26%
## ASIA-PACIFIC



**The 34% growth** in revenues in Asia-Pacific was driven by ASEAN and South Korea (+65%), China (+27%), India (+108%), and Japan (+5%), despite the tragic catastrophe in Fukushima and the floods in Thailand. The automotive sector was the most dynamic.

**31**
sales and service subsidiaries

**5**
International Call Centers

**1,350**
employees

**50**
nationalities

# 5%
## OTHER COUNTRIES

## 23,000 CUSTOMERS IN MORE THAN 100 COUNTRIES

AERNNOVA • AIR CRUISERS • AIRBUS • ARENA • ARMANI • ASHLEY FURNITURE • AVANTE • AZIMUT-BENETTI • B&B • BELL HELICOPTER • CALZEDONIA • CATH KIDSTON • CHANTELLE • CHENFENG • CLUB HOUSE • CORNELIANI • DAHER • DE SEDE • DECATHLON • DEVANLAY-LACOSTE • DFS • DIESEL • DIOR • DRAEXLMAIER • ECA • ENGLAND • ERMENEGILDO ZEGNA • EUROCOPTER • FAURECIA • FRUIT OF THE LOOM • GKN AEROSPACE • GLORIA JEANS • GLOBAL SAFETY TEXTILES • GUCCI • H&M • HANES • HARMONT & BLAINE • INDUSTRIAS CAVALIER • JAY JAY MILLS • JC PENNEY • JOHNSON CONTROLS • KOLON • KOOKAI • LA JOLLA • LA PERLA • LAFUMA • LEAR • LERADO • LES ENPHANTS • LEVI STRAUSS • LISE CHARMEL • LIZ CLAIBORNE • LONIA • LOUIS VUITTON • LUNENDER • MACHALKE • MALWEE • MANGO • MARESE • MARIA GRACHVOGEL • MARKS & SPENCER • MIROGLIO • MOLTENI • MONCLER • MULBERRY • NEW YORK & COMPANY • PARK • PLEASE MUM • POLTRONA FRAU • PRADA • PUNGKOOK • ROSSIMODA • RUSSELL • SABRINA • SEFAR FYLTIS • SHUANGRUI • SPEEDO • ST. JOHN • SUMISHO AIRBAG SYSTEMS • SUZLON • TATA ADVANCED MATERIALS • TOYOTA • VAN DE VELDE • VERSACE • YONGSAN • YOUNGONE • YVES SAINT LAURENT • ZANNIER • ZODIAC AEROSPACE

# BUSI

NESS

# 40 YEARS OF EXPERTISE AND PROXIMITY WITH CUSTOMERS

CAPITALIZING ON EXPERIENCE ACQUIRED WITH 23,000 CUSTOMERS, LECTRA CREATES AND COMMERCIALIZES INNOVATIVE TECHNOLOGY SOLUTIONS AND OFFERS RELATED SERVICES ENABLING COMPANIES USING TEXTILES, LEATHER, INDUSTRIAL FABRICS, AND COMPOSITE MATERIALS TO IMPROVE THEIR COMPETITIVENESS AND BETTER RESPOND TO THEIR CHALLENGES.

Maria Grachvogel

## PIONEER IN ITS MARKETS

Lectra builds its legitimacy on unparalleled technological heritage, rich human capital, and long-term relationships with its customers. Its strong capacity to anticipate the changing needs of its markets has enabled it to develop a close collaboration with front-runners in the industry for designing and developing the solutions of tomorrow.

**Number one worldwide**
Global and local player, Lectra serves customers worldwide through its widespread infrastructure of 31 subsidiaries and five International Call Centers. Its teams combine their experience in customers' businesses and their multisectoral knowledge with a mastery of complex technology system integration.

# ACCOMPANY CUSTOMERS IN THEIR STRATEGIES

The economic environment and an ever-greater level of global competition are forcing companies to optimize their value chain and fundamentally transform their organization and business model to ensure profitable and sustainable growth. Lectra contributes to their performance, from the definition of needs, to the ongoing improvement of their industrial processes, to change management.

**Respond to the particularities of each sector**

Lectra develops technology solutions and business *savoir-faire* that is adapted to each industry, each business model, and each type of production, to meet their specific needs and challenges.

**Create value**

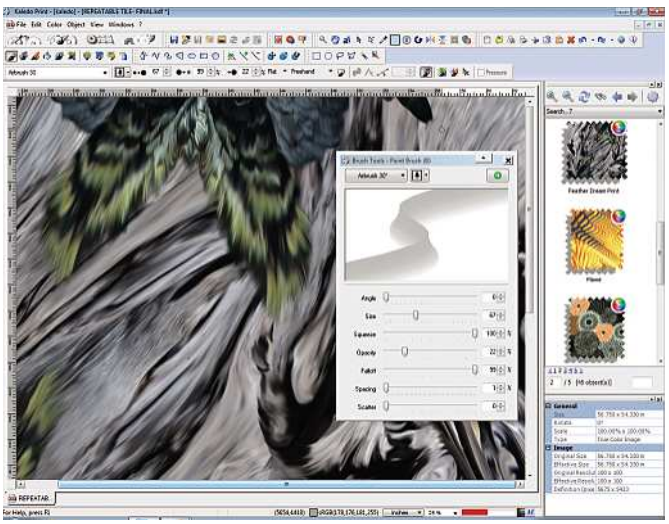
Strengthened by decades of partnership with the major players in fashion, automotive, furniture, and many other industries, Lectra's solutions incorporate best practices and industry-specific *savoir-faire* to optimize product design and manufacturing, a major asset that enables its customers to get the best out of their technology investments. Its state-of-the-art services enable them to significantly increase their productivity and responsiveness and to develop their activities and their international expansion.

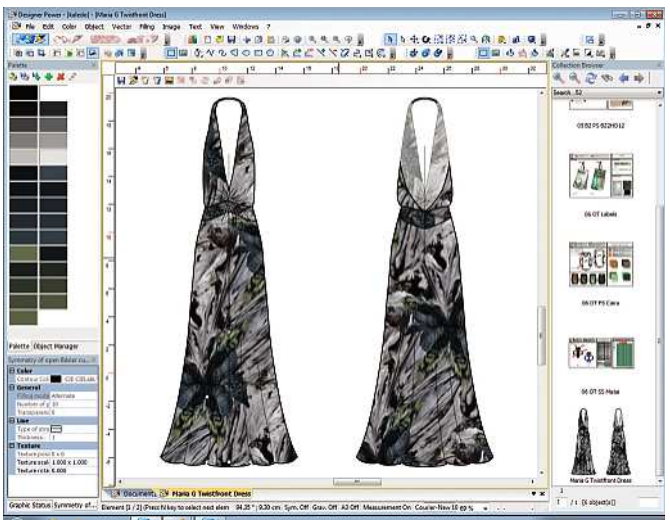
**Develop synergies**

In an environment where industrial strategies intersect, this knowledge of best practices from various industries is one of Lectra's greatest assets. 70% of the technologies it develops are common to all sectors. These technologies, in turn, benefit from significant synergies and enable customers to transform today's challenges into tomorrow's opportunities.

# COLLABORATIVE SOLUTIONS THAT ARE REVOLUTIONIZING FASHION

DESIGNERS AND MANUFACTURERS ARE SEEKING TO SHORTEN AND BETTER CONTROL THE EVER-ACCELERATING DEVELOPMENT LIFE CYCLE OF THEIR COLLECTIONS TO KEEP UP WITH FASHION TRENDS, MAINTAIN THEIR BRAND STYLE AND QUALITY, INCREASE FLEXIBILITY, AND GUARANTEE PROFITABILITY.





## MANAGE COLLECTION COMPLEXITY STARTING FROM THE INITIAL IDEA

Lectra takes force from its unique expertise acquired with the biggest names in fashion—especially in luxury—to offer advanced technology solutions entirely dedicated to the specifics of their businesses. It helps its customers industrialize their know-how and combine creativity and performance, from the first stroke of the pencil to the onset of production.

### Improve creativity, a critical factor in fashion

Lectra's standard solutions integrate advanced trade specificities together with the design, development, and industrialization processes for the most elaborate collections. They suit the needs of businesses as diverse as fast fashion or luxury, ready-to-wear for men, women, and children, and lingerie, which require complex and particular cycles and know-how.

### Preserve brand heritage

Since it was founded in 1973, Lectra has earned the trust of the most renowned fashion designers and the largest manufacturers alike to get their models to market faster. Favoring creativity, Lectra makes agile value chain management possible, with an industrial approach to automation and rationalization while maintaining consistency with the brand's DNA. This enables customers to better thrive in this mix of traditional know-how, exigency, and emotion, which makes the biggest fashion brands so unique today.

Maria Grachvogel

# PAVE THE WAY FOR A UNIVERSAL LANGUAGE WITH 3D

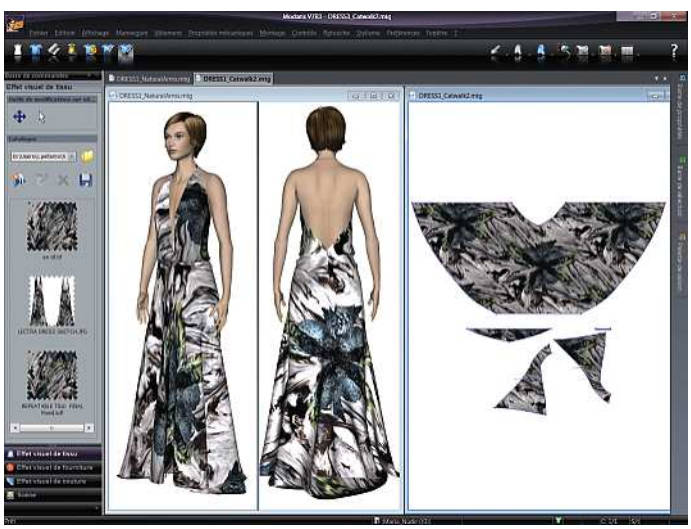
Specific to clothing, and building on more than a decade of investments in R&D, Lectra's 3D development and prototyping solution brings out the value of designers' *savoir-faire* and enables them to cut model design time in half, all the while optimizing costs.

**Ensure proper garment fit**

The only 3D pattern-making software on the market, it enables users to draft a flat pattern or to drape directly onto a 3D model, but also to switch back and forth between 2D and 3D. In addition, it ensures the proper fit and quality of clothing by simulating the mechanical behavior of thousands of fabrics, from linen to silk to denim, on mannequins representing all sizes and all morphologies, whether standard or customized by each customer. Pioneer in 3D as applied to flexible materials, which have very specific constraints, Lectra has now brought to maturity an innovative technology—tested and used for many months by a few front-runners—which should revolutionize the clothing business in the coming years.

**Modify models all the way up to production**

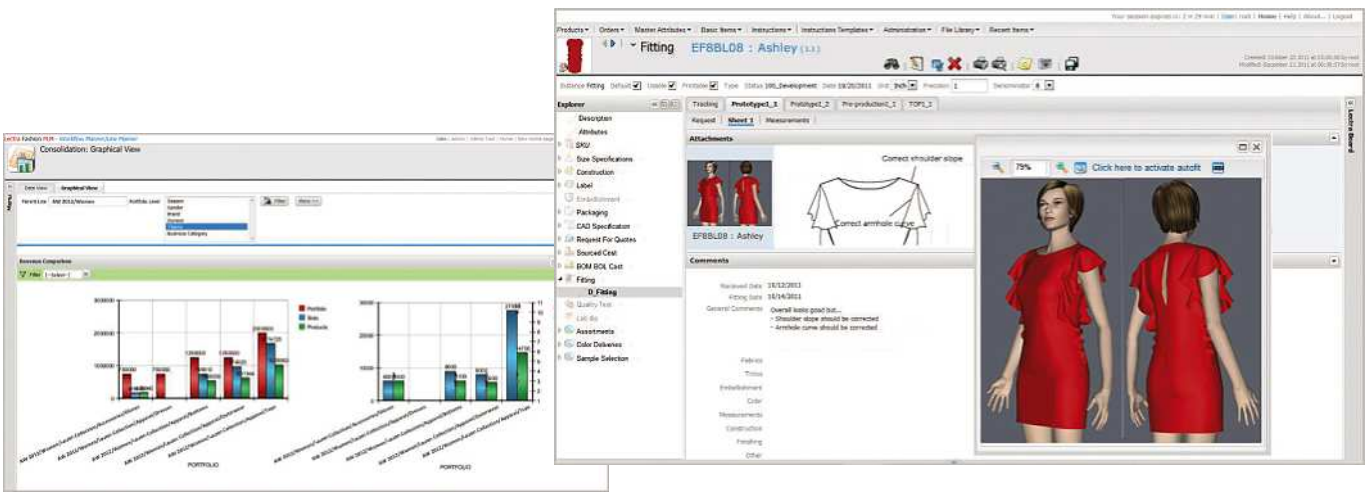
By offering a universal language based on the virtual double of the product, Lectra enables users to benefit from a better flow of information exchange among all actors in the chain of the garment's development—designers and pattern-makers, marketing teams, buyers, and manufacturers, whether internal or external to the company. Meanwhile the integrity of patterns and production parameters is ensured throughout the process, and users still have the flexibility to modify the models up until the last minute—an essential factor in fashion.

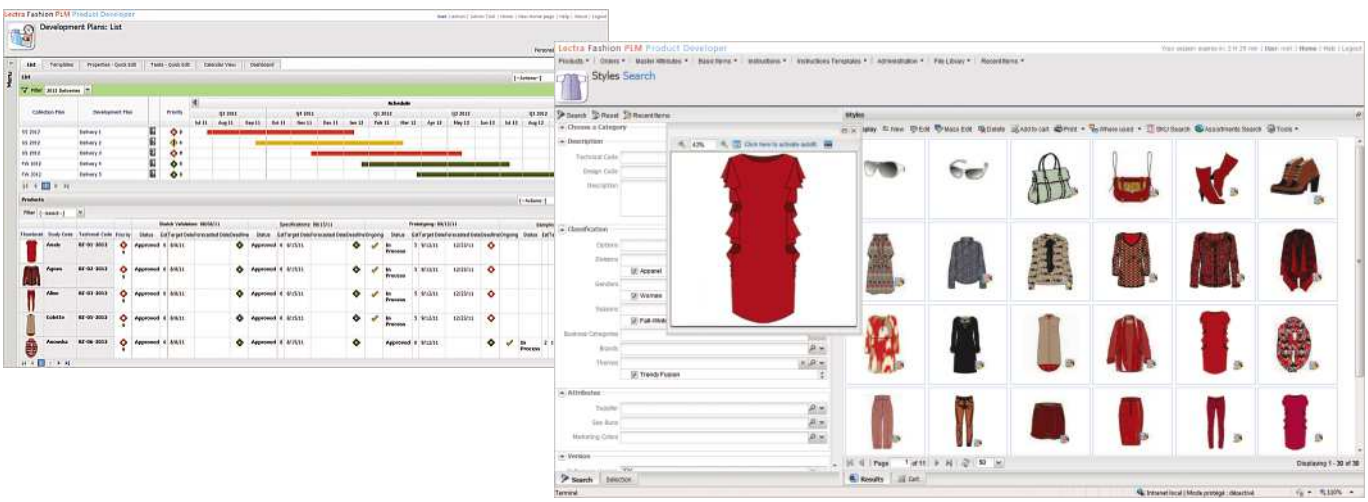


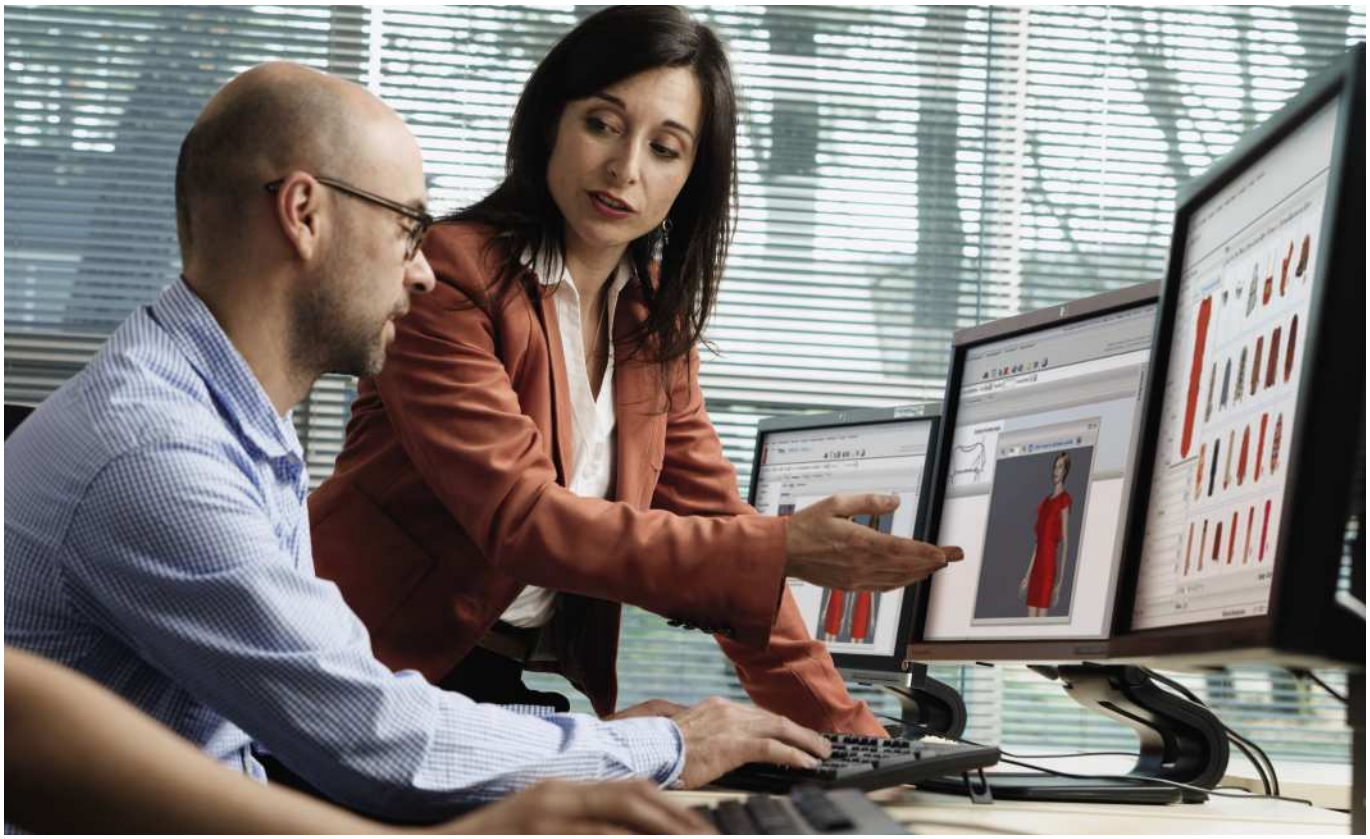
# COLLABORATE IN REAL TIME

Unique in the market to integrate fashion-specific software for design, development, and prototyping—indispensable instruments in the development of collections—Lectra Fashion PLM enables designers and pattern-makers to collaborate in real time, interactively, with industrial and marketing teams, whether internal or external to the company.
The design cycle of a complete collection can thereby be reduced 30 to 70% depending on the business model.

Veritable tool for decision-making support, Lectra Fashion PLM provides complete visibility over the entire value chain and enables managers to pilot that chain, redefine priorities, and reach cost price and profit margins objectives. It ensures optimal industrialization of models and better collection consistency.





# CONSULT, TRAIN, AND ACCOMPANY CHANGE

Perfect knowledge of Lectra's technology solutions, combined with that of the specificities of fashion businesses, enables Lectra's experts to share a common culture and language with the customer company's teams—an essential factor in driving change, and necessary to the success of any innovative technology project. They take its business model and its specific needs into account, and build on the industry's best practices, to rethink its processes and accompany its teams, thereby generating a veritable lever for value creation.

**Adapt project implementation to the rhythm of collections**

Each company can decide to implement its project in more or less extensive phases, for one or several brands or collections, and for all processes covered by Lectra Fashion PLM or just some of them. This approach, which is vital to ensure optimal management of the project, enables it to choose the size and the timing of its investment. The project may begin with a rapid implementation and then progressively develop into a complete solution, adapted to the company and its mode of operation.

**Optimize return on investment**

So that the company may benefit, as soon as possible, from optimal operation guaranteeing the best return on investment, Lectra ensures user adoption via exchange workshops, skills transfer through training focused on the new processes and technology solutions, and personalized coaching.

# FROM THE INTELLIGENT CUTTING ROOM TO LEAN MANUFACTURING

IN CONTACT WITH THE MAJOR AUTOMOTIVE MANUFACTURERS, LECTRA HAS DEVELOPED A KNOWLEDGE OF LEAN MANUFACTURING WHICH NOW BENEFITS ITS MANUFACTURING SOLUTIONS. TODAY, THIS METHOD HAS EXPANDED TO OTHER INDUSTRIES—IN PARTICULAR FASHION, WHICH IS TURNING TOWARD CONTINUOUS COLLECTIONS AND JUST-IN-TIME PRODUCTION.

## A REVOLUTION IN LEATHER CUTTING

Benefiting from 20 years of investment and experience with leather specialists, Lectra has developed new, revolutionary leather cutting solutions, unparalleled on the market. The leather goods range was launched in mid-2011, the automotive range at the end of 2011, and that for furniture in early 2012. Particularly flexible, they integrate a hide digitizer, an operations management software, and automated cutters adapted to all kinds of leathers. Configurable according to production mode, they enable users to qualify hides prior to cutting and to process complex shapes without compromising quality, offering an unprecedented level of productivity and very significant material savings of up to 10%.

Such performance is all the more remarkable given that the cost of leather has been on the constant rise and represents a major component of cost price.

**Exceed productivity standards in fabric cutting**

Lectra's solutions are adapted to the specificities of each industry and each type of production, from made-to-measure to small runs to mass production. Extremely flexible in particular because of their embedded intelligence, the automated cutters enable users to move from one product model to another without affecting production pace, in order to meet the diversity of demands and the fluctuation in the number of references from outsourcers.


Demcointer



# INNOVATION, SERVING PERFORMANCE

Lectra's cutting room solutions are the reference for the most demanding manufacturers. They guarantee an overall optimization of their production, a maximum return on investment, and the lowest total cost of ownership. Lectra's automated cutters are of the highest performance. Even when used 24 hours a day, seven days a week, they have an uptime approaching 98%, a record that is unmatched in the industry.

## The most advanced and most comprehensive CAM offer on the market

The power of Lectra's 3D pattern-making and prototyping, planning, and automatic nesting software, and the high performance and quality of its equipment, combined with its offer of specialized services, bring a unique value to customers: constant access to the best conditions of productivity, quality, and flexibility.

## Pioneer in Smart Services

Business expertise, training, user support, and on-site maintenance have built the reputation of Lectra's service teams. Lectra's Smart Services, launched in 2007, are enriched every year. Their innovative data collection and diagnostics technology—made possible by 120 embedded sensors which analyze the interaction of the machine with the material in real time—enables Call Center experts to verify, via secure Internet connection, whether the cutter is optimally configured, to take control remotely in order to intervene in real time, and to schedule preventive maintenance. A response to the key principles of lean manufacturing: improve uptime, detect malfunctions and remedy them, and eliminate redundant tasks.

# BUILD THE FUTURE

## THE TECHNOLOGY CAMPUS, THE HEART AND SOUL OF LECTRA

Located on an exceptional site of 11 hectares of pine forest, the technology campus of Bordeaux-Cestas includes R&D, production, the main Call Center, Lectra's International Advanced Technology and Conference Center, and the Lectra Academy training center.

### An idea-generating site

Equipped with the latest technology, it offers a professional environment that encourages creativity and collaborative performance while reflecting the modernity that drives the company and its passion for innovation. Lectra has made its campus a major meeting place for customers of all industries from around the world, professional federations, its business and solutions experts, and its research engineers. Theme events and seminars dedicated to an industry, country, or company are regularly organized at the site.

### A veritable experimentation center for customers

Significant construction has been undertaken to expand the International Advanced Technology and Conference Center to 4,500 m$^2$. Inaugurated in early 2012 in its new configuration, it includes a demonstration showroom featuring all the latest versions of Lectra's technologies, a 100-seat amphitheater with simultaneous translation, and training rooms, entirely devoted to customers. Accompanied by Lectra experts, they discover the technologies, simulate the design, development, and manufacturing of their products, test the cutting of the most complex materials in their own production conditions, and experiment with the latest advances in Smart Services.

# A MAJOR CONTRIBUTION TO EDUCATION

Worldwide leadership infers responsibility. Lectra has always been heavily involved in the training of future generations of professionals. It accompanies more than 850 schools and universities around the world to prepare students for the techniques and challenges of different businesses, especially those of fashion.

**A personalized partnership program**

Lectra equips partner institutions with its latest technologies and shares its expertise in industry best practices to develop training programs that most closely meet the needs of companies. Students are thereby offered a real competitive advantage, regardless of their future workplace or specialization. At the summit of this action, Lectra has developed a network of "privilege" partners, comprising more than thirty prestigious schools of international renown. It has woven tight connections with them, created programs adapted to the pedagogical methods of each institution, and developed common projects such as its Education Congress, students competitions, and research programs, all for mutual enrichment.

**International visibility for tomorrow's designers**

Lectra is associated with major international competitions recognizing student creations based on technologies they have learned in class. In 2011, it organized a competition as part of Milan's Mittelmoda, one of the largest international competitions which brings together more than 620 design schools from 66 countries.

MAR

FASHION
AUTOMOTIVE
FURNITURE
OTHER INDUSTRIES

# KETS

FASHION IN AN INCREASINGLY COMPETITIVE APPAREL MARKET IN FULL-SCALE EVOLUTION, TO COPE WITH THE DEMAND FOR MORE AND MORE RAPID COLLECTION RENEWAL, MANUFACTURERS MUST TRANSFORM THEIR BUSINESS MODELS, CHANGE THEIR PROCESSES, AUGMENT CREATIVITY, AND PRODUCE FASTER, BETTER, AND AT LOWER COST.

**"CORNELIANI, Italian family fashion house founded in 1958, is a leader in high-end men's ready-to-wear, a symbol of 'made in Italy' quality and style. We realize revenues of more than €150 million, employ about 800 people in Italy, and have developed a very strong international presence through a network of more than 900 points of sale including 75 flagship stores and 70 corners in Europe, Asia, and Latin America. Corneliani offers an approach to luxury that meets the requirements of modern life: elegant and contemporary style and consistent brand image. To industrialize our *savoir-faire* of tradition, we have knitted strong relationships with and confidence in Lectra, our technology partner for nearly 30 years. Together, we have helped the development of many technological solutions and have tested and implemented the most significant innovations in our industry. We have developed an integrated design and production process approach for our suits to meet our quality standards, reduce our development cycle, and ensure consistency in our style heritage—all the while fostering our creativity. We were thus among the pioneers in high-end made-to-measure suits, revolutionizing our business model thanks to Lectra's technologies. By participating in our success, Lectra has proven to be a strategic partner for us."**

**Corrado Corneliani**
**Industrial Director**

**Artistic vision combined with technical *savoir-faire***

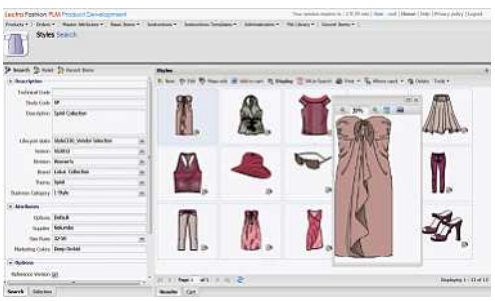
Created to meet the demands of fashion brands—differentiation in a competitive market and shortened production times—Lectra's software solutions enable users to create virtual prototypes and perform virtual fitting sessions very realistically to streamline the development of models and to facilitate the validation phase prior to industrialization.

# CAPITALIZE ON BRAND HERITAGE AND REINVENT

Despite a difficult global climate, ready-to-wear continues to expand in Europe and the United States, while luxury players are benefiting from ever-stronger demand driven by the dynamism in Asian countries. Companies' growth depends on their capacity to respond to the evolving demand, to cultivate their brand heritage, and to be at the *avant-garde* of trends—all imperatives to win and retain customers over the long term. Lectra's advanced technologies enable fashion companies to control and optimize all stages of realizing a collection, from design to cutting, with increased productivity. Highly advanced in design, they meet the expectations of brands wishing to exercise their creative freedom and maintain a high level of quality.

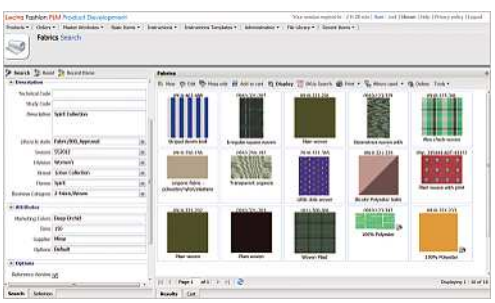
# STREAMLINE THE LIFE CYCLE OF COLLECTIONS

In a clothing market caught between intensified competition and rising costs, brands and manufacturers must streamline the development cycle of their collections to increase their profitability. The constant renewal of collections, which is becoming widespread in everything from sportswear to ready-to-wear to luxury so as to build customer loyalty, makes their management more complex. Adhering more closely to trends imposes decision-making that must occur faster and earlier in the development process. Strategic choices in terms of design, manufacturing, and supply play a key role in reducing time-to-market. They require that all internal and external stakeholders be involved—as early as the design stage—and that companies be able to rethink their processes and go back and forth and modify models all the way up to the decision to start production. In this context, Lectra's enterprise solutions, which enable users to control the entire value chain and ensure the development of collections under optimal conditions while respecting financial objectives, play an essential role.



## A PLM solution unique to fashion

Lectra Fashion PLM stands out for its capacity to manage the collection development process while integrating Lectra's specialized textile and fashion design, pattern development, and 3D virtual prototyping software. A true collaborative solution, it enables fashion brands and specialist retailers to leverage human talent, reduce costs, and improve fit while shortening overall time-to-market. All critical factors in a competitive apparel market where consumers constantly seek new trends.

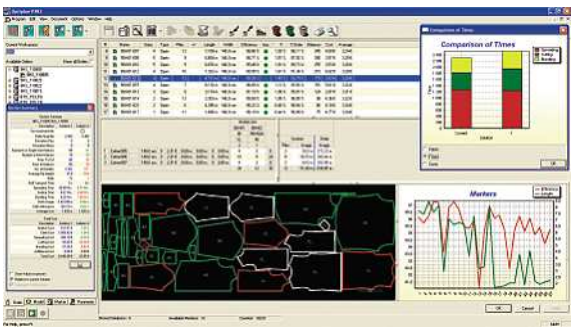



"**LA JOLLA GROUP**, based in California, is the world's premier multi-brand apparel licensing company, with 400 employees across the U.S. and a prominent portfolio that includes some of the most recognized names in fashion and action sports: O'Neill Clothing USA, Metal Mulisha Clothing, Rusty North America, The Berrics, and FMF Racing. La Jolla Group brands are sold in 10 own-brand retail locations and are carried by more than 3,000 retailers across the U.S. as well as Europe, Canada, Latin America, Australia, and Japan. La Jolla Group has applied its core competencies in design, marketing, sales, production, and distribution to each of its licenses, creating a brand mix specialized in surf, skate, snow, motocross, and beach lifestyle. Our youthful culture and responsive management strategies have made us one of the most respected and innovative corporations in the apparel industry. We realized that in order to manage the diversity of our brands and accelerate performance in the increasingly competitive and ever-changing surf and sportswear market, we needed to have greater control over cost, time and delivery, and quality, in order to focus on business fundamentals, while also respecting creativity. We decided that the best way to manage this complexity would be through a single, digital, collaborative system. After an extensive amount of PLM market research, we chose to implement Lectra Fashion PLM for all of our brands. We finally have at our fingertips an apparel-centric PLM that understands the nuances of our industry. The design and development process improvements Lectra has brought will contribute to sustaining La Jolla Group's growth and strengthening our business model. The combination of Lectra's technology and team of industry experts and consultants are taking our product development to the next level, which will keep us far ahead of the competition."

**Josh Wellington**
**Chief Operating Officer**

# CHINESE COMPANIES IN FULL-SCALE EVOLUTION

Despite inflation and soaring wages and social charges, which are driving outsourcers to relocate their production to lower-cost countries such as Indonesia, Vietnam, and Bangladesh, garment production remains an important part of the Chinese economy and of world manufacturing volume.
It must now distinguish itself by a higher added value. Lectra's solutions enable manufacturers to process more and more significant volumes, to optimize their production without losing quality, and to meet their cost and deadline constraints.




### Optimum flexibility and profitability

Consisting of a complete set of operations management software, high-performance equipment, and intelligent services, Lectra's cutting room solutions, the most flexible and most advanced on the market, strongly contribute to the optimization of production processes. Incorporating industry best practices, they enable companies to radically shorten delivery times, reduce material consumption by up to 10%, and significantly improve productivity.

**"CHENFENG GROUP, founded in 1967, is today one of the biggest apparel manufacturers in China with around 8,000 employees and three manufacturing facilities. The company produces more than 36 million garments annually for major international brands, including Adidas, Asics, Calvin Klein, Mizuno, Marks & Spencer, GAP, and Uniqlo, to supply both the export and local markets. ChenFeng has earned the long-term trust of its international contractors and has captured new markets and customers with very high production capacity and optimized manufacturing costs, continuous improvement of processes to ensure the quality and timely delivery of end products, and excellent services including very strong product development capabilities to cope with a much higher product diversification. Since the 1990's, Lectra has accompanied and been at the heart of ChenFeng's transformation into an outstanding and competitive industrial enterprise and now a top fashion brand. Thanks to the implementation of the full range of state-of-the-art technology solutions including a very large software installation for pattern development, automated nesting, and high-end automated cutting systems backed by powerful software tools to speed up the company's development cycle as well as a world-class organization of consultants and support engineers, Lectra has helped the ChenFeng Group anticipate the market demand and become a major player of the Chinese fashion world."**

**Yin GuoXin**
**President**

Meanwhile, to respond to the demand for upscaled product lines for an ever greater domestic market, Chinese companies are being forced to change their business models. Chinese brands are evolving to meet the increasingly sophisticated requirements of consumers who seek to satisfy their desire for distinction through their apparel. Growth is expected to reach 30% over the next five years, mainly in clothing for women. Present in China for 30 years, Lectra offers its expertise in product design and development—acquired with the most significant players in fashion, particularly in France and Italy, where it holds a market share of more than 70%—to assist Chinese companies in building their brands.

**"SHANGHAI LES ENPHANTS, created in 1993, counts around 4,000 employees and 1,888 retail outlets in China, including department stores and own-brand stores, and records annual revenues of $228 million. Focused equally on design and marketing, the company manufactures and distributes children's apparel, sportswear, and accessories under the proprietary brands Les Enphants, my nuno, and nac nac, as well as licensed brands including Absorba, Barbie, Claire.dk, Combi, Disney, Peter Rabbit, Pigeon, and Roberta di Camerino. The reputation of Les Enphants is founded on providing creative, comfortable, and functional garments of unwavering quality. For more than 10 years, Lectra has been central to Shanghai Les Enphants' transformation into a brand prepared to meet increased and more exacting demand from a growing Chinese market. Capitalizing on 40 years of fashion industry expertise, Lectra's team of local consultants and international specialists crafted a solution to improve business processes and enhance creativity and team collaboration; unequaled quality, speed, and efficiency now define product development at Shanghai Les Enphants. Design and PLM solutions delivered with industry best practices are central to a strategy conceived to support the company's long-term business."**

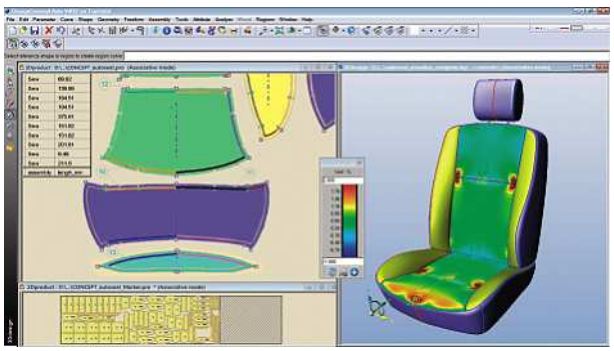
**Lily Lin**
**Apparel Division Senior Assistant Vice President**


### Trend-setting technology

As the company's creative memory, Lectra's design solutions unite design teams around shared visual and technical information. Both textile and fashion designers share knowledge and information in real time with product development teams so that styles move into the industrialization phase faster due to fewer modifications, while optimizing costs and increasing the quality of products to be manufactured.

# AUTOMOTIVE

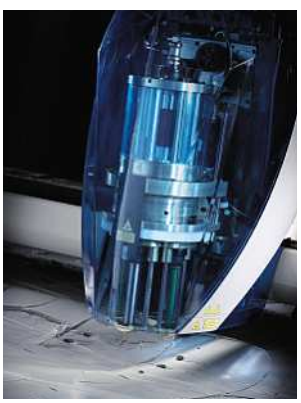
THE HIGHLY COMPETITIVE MARKET REQUIRES THAT AUTOMAKERS MULTIPLY MODELS, CONTROL COSTS, AND REDUCE TIME-TO-MARKET. AUTOMOTIVE PARTS MANUFACTURERS HAVE BECOME KEY PLAYERS FOR JUST-IN-TIME PRODUCTION. THEIR GROWTH DRIVERS ARE DIRECTLY RELATED TO THE EVOLUTION OF EMERGING COUNTRIES AND TO THE NEW REQUIREMENTS FOR QUALITY AND SAFETY THROUGHOUT THE WORLD.



**Simulation and visualization**
DesignConcept Auto perfectly responds to the needs of manufacturers specialized in car seats. It enables companies to reduce their development time and their costs while maintaining control over quality. From the 3D visualization of style hypotheses to the evaluation of feasibility and production costs to the flattening of shapes to be cut, it contributes to a significant reduction in development time in the industrialization phase to meet the requirements of the automotive industry.

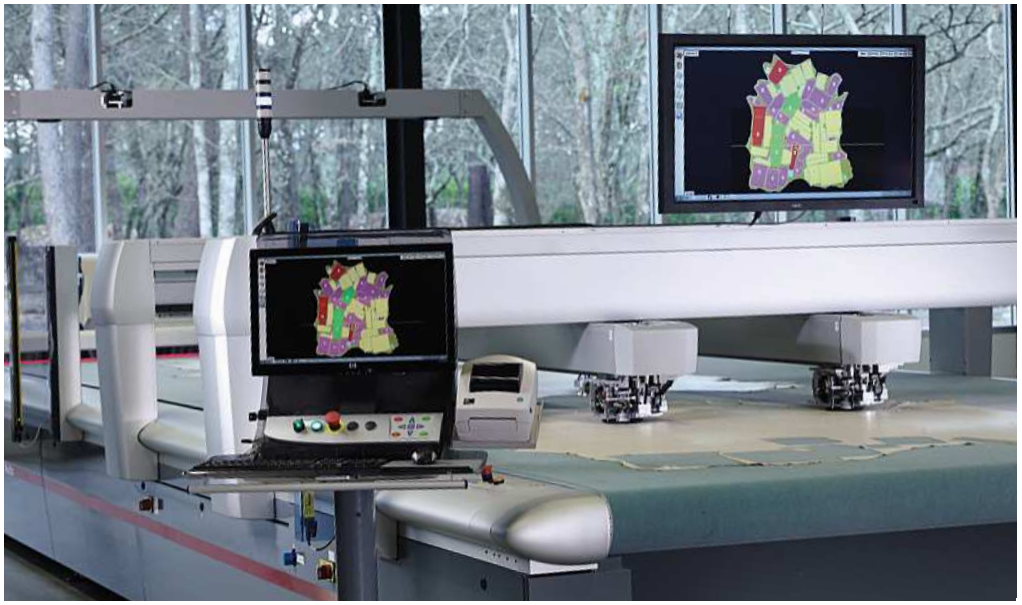
**"FAURECIA, the world's number three car seat supplier, is driven by a real passion for the automotive world. An expert at designing and manufacturing every seat component, Faurecia seamlessly assembles complete seats and guarantees just-in-time delivery to its customers' plants. With 270 production units in 33 countries, Faurecia supplies all major car manufacturers around the world. Faurecia has based its innovative solutions on safety, comfort, perceived quality, modularity, and natural or recycled materials. Despite the global economic crisis, Faurecia recently announced plans for aggressive organic growth until 2015 that will be sustained by strategic investments in countries where the automotive sector is growing, including emerging countries. Such investments are considered a key for maintaining Faurecia products' margins. Today, Faurecia's main challenges are to ensure the same level of product excellence to its customers on a worldwide base, with the same high standard of quality and on-time delivery, and to gain competitiveness with optimized costs. To meet such objectives, Faurecia has trusted Lectra through an exclusive global partnership for the automation of its cutting process. Lectra's unique cutting room technology enabling us to maximize equipment uptime, enhance productivity, and reduce fabric usage is combined with a worldwide presence ensuring that local service and expertise are delivered at global standards. This has enabled Faurecia to ensure a quick start-up in their new installations in Morocco, Portugal, Romania, Slovakia, Mexico, and Uruguay, ensuring continuous customer satisfaction with high-end products, ambitious designs, and on-time deliveries."**

**Alexandre Figueiredo**
**Vice President Comfort & Trim Systems Division**
**Faurecia Automotive Seating**



# A VITAL TECHNOLOGY EVOLUTION

Lectra accompanies its customers in their efforts to optimize the production processes of automotive interiors—especially seats and airbags—to reduce costs while improving quality and safety, with increasingly tightening deadlines.



**Optimized production cycles**
Leather now covers a growing share of car interiors. Launched in late 2011, Lectra's new Versalis Auto range of leather cutters dedicated to the automotive industry responds perfectly to this fundamental trend. It enables manufacturers to optimize the production cycles for car seats and interiors and to achieve significant material savings without compromising on quality.

# SUPPORT LEAN MANUFACTURING

Optimizing manufacturing cycles through the value chain is a constant goal for all automotive players. Pioneers in terms of streamlining processes, automotive parts manufacturers are seeking technology solutions that fit with their lean manufacturing strategies to achieve maximum productivity and profitability. The evolution towards the proliferation of models and options now requires them to combine creativity and flexibility with automotive-specific performance requirements and safety regulations, all the while progressively experiencing constraints similar to those in the fashion industry. They are always looking to improve the flow in their processes to keep prices down while maintaining a level of extreme quality. Lectra's solutions, from fabric and leather seat coverings in 3D to automated cutting, enable users to manage their production just in time, to achieve up to 10% savings in materials, and to reduce the risk of error for all types of production, in small, medium, and large series.

**Precision, reliability, and productivity**
Used by the vast majority of airbag manufacturers, Lectra's laser-cutting systems are the most productive on the market—up to 4 million airbags per year per machine—for responding to the proliferation in number and type of vehicle airbags. They enable manufacturers to save up to 8% in materials compared to conventional methods while ensuring the level of high reliability and traceability that is required of safety equipment. The real-time monitoring integrated into the cutters makes it possible to prevent disruptions in production rates and to optimize manufacturing cycles.

# INCREASE THE NUMBER OF AIRBAGS TO REINFORCE SAFETY

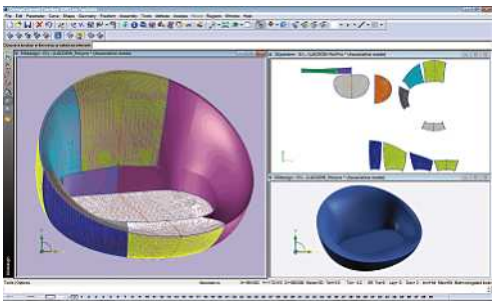
Subject to increasingly stringent automotive regulations to reinforce safety, each car model now includes between 4 and 14 airbags. As a result, the market is booming in Asia, the Americas, and to a lesser extent Europe, which is already a step ahead in security. Global demand for airbags should thus increase 5 to 10% per year until 2014. China, India, Brazil, and Russia will experience double-digit growth over this period. Automotive parts manufacturers must therefore provide safety equipment in very large volumes. The search for productivity is more relevant than ever before. Scanning vision and laser technology developed by Lectra bring the required level of extreme quality to the cutting of airbags.

**"KOLON INDUSTRIES has, since the first nylon production in South Korea in 1957, grown into a world leader in each industry it serves: industrial materials, chemicals, films, electronic materials, and fashion. To become a top global chemical and materials company, Kolon has started to globalize its businesses and increase investment in the delivery of high-value products. Airbag fabrics and cushions for the automotive market were first manufactured in large scale in South Korea by Kolon in 1994 and are today supplied to domestic and international automotive suppliers.**
**The company has rapidly grown into the number one airbag player in South Korea and a major supplier on the global market. Airbags are one of the most important vehicle safety systems, along with seatbelts, and consist of an inflator, which generates gas, and a cushion, which serves as a soft bag. As a consequence, the cutting of the cushion needs to be extremely accurate, and the highest standards in terms of ISO certification for suppliers of the automotive supply chain needs to be fulfilled. Additionally, the production of very high volumes has to be combined with a maximized utilization of the very expensive materials used and complex designs for airbags of all types—driver, passenger, side impact, and curtain. Since 2004, Kolon has implemented Lectra's automated laser-cutting systems in its integrated manufacturing floors and is currently producing 100% of its airbags with this technology.**
**The modular configurations are used for the cutting of spread flat fabric or single-ply one-piece-woven airbags, including Lectra's sophisticated scanning system.**
**This has allowed Kolon to cope with its major quality, productivity, and efficiency challenges, to fulfill its customers' highly demanding requirements, and to respond positively to an increasing demand as the usage of airbags also continues to increase around the world.**
**Lectra's global expertise and technological leadership combined with a local presence in the plants where Kolon airbags are cut, in South Korea, China, and Vietnam, has enabled the company to fully benefit from the important growth of the automotive market in 2011."**

**Sung-Gyun Hong**
**Vice President Industrial Materials Production Center**

# FURNITURE

IN A HIGHLY FRAGMENTED INDUSTRY—WITH THE SAME UPHEAVALS THAT OTHER INDUSTRIES HAVE EXPERIENCED IN RECENT YEARS AND NOW FACED WITH GLOBALIZATION—TOP-OF-THE-LINE FURNITURE BRANDS AS WELL AS SPECIALIZED RETAIL CHAINS MUST ATTRACT CUSTOMERS LOOKING FOR DESIGN, QUALITY, AND CUSTOMIZATION. THEY ARE SEEKING NEW BUSINESS MODELS TO COMBINE CREATIVITY AND COMPETITIVENESS.



**Virtual prototyping for greater productivity**
DesignConcept Furniture, specifically developed for the furniture industry, integrates all product components: frame, foam, and upholstery. It enables manufacturers to reduce the time it takes to define and develop models and to simulate different creative variants as well as their associated costs, and to offer a wide choice to consumers.

**"DÉSIRÉE, a subsidiary of Euromobil founded in 1968, is a high-end Italian furniture manufacturer. In 15 years, Désirée has gone from a small company to a 40-person operation with a catalogue of 80 products sold in 900 stores around the world and annual revenues of €8.5 million—60% of which are from outside Italy. Our innovative Italian-designed and -produced armchairs are known for their comfort and high-quality finishes. To remain competitive in a market with more and more internationally outsourced production and to satisfy customer demands for more personalization while preserving our brand's essence, we chose Lectra to examine and improve our end-to-end manufacturing process with the help of their solutions for 3D design and leather and fabric cutting. This has enabled us to reduce our costs—a 30% savings—and shorten lead times while maintaining our high standards. For 10 years, Lectra has been a real partner in our development, allowing us to stay on top of trends, adapt our production capacity, and make decisions earlier—all of which constitute our best advantages."**

**Luigi Lucchetta**
**Director, Administration and Finance**

**A high-performance hide digitizing solution**
Lectra's hide digitizer has no equivalent on the market. Its electronic pen enables users to identify flaws without physically marking the hide and is perfectly adapted to sensitive leathers. The on-line process enables one-off hide handling, preventing hide deformation and ensuring perfect cut quality.

# UNITE DESIGN AND QUALITY

To ensure customer loyalty and to differentiate themselves in a highly competitive environment, furniture brands and manufacturers are seeking to introduce products with innovative design and, as in fashion, multiply the styles, models, and choice of materials. They must alternate mass production, small series, and custom goods while reducing time-to-market. The rising increase in the price of leather—from 50 to 100% in two years depending on the quality—and of fabrics is forcing them to optimize the use of materials. To adapt to the demands of this market, Lectra offers integrated solutions dedicated to furniture, which optimize production without compromising quality and provide a response that makes it possible to combine creativity, flexibility, and cost reduction to enhance manufacturers' competitiveness. Its 3D software for design, prototyping, and industrialization enables companies to explore a multitude of creative paths and virtual configurations—shapes, materials, colors—to facilitate decision-making well before production and to optimize production costs. The fastest and most flexible on the market, Lectra's automated cutting solutions for plain or patterned fabrics maximize the material gains achieved. A revolution has begun with the new range of leather cutting solutions, launched in early 2012.

# OTHER INDUSTRIES

THE USE OF INDUSTRIAL FABRICS AND COMPOSITE MATERIALS BY A GROWING NUMBER OF INDUSTRIAL SECTORS—SUCH AS AERONAUTICS, MARINE, WIND ENERGY, SPORTING EQUIPMENT, AND PERSONAL PROTECTIVE EQUIPMENT—CONTINUES TO GROW STEADILY DUE TO NEW ENVIRONMENTAL OBLIGATIONS AND THE DIVERSITY OF APPLICATIONS. IT RESPECTS HIGH STANDARDS OF QUALITY, RELIABILITY, AND SAFETY.



"**ARMOR EXPRESS**, founded in 2004 and headquartered in Central Lake, Michigan (U.S.), provides superior quality body armor to police and army forces. Our latest certified armor systems raise the bar for performance, comfort, and value design, thanks to our teams' wealth of experience and product knowledge in the body armor industry. In 2011, we moved to our new facility which consists notably of a completely remodeled 25,000 square-foot production area, a 10,000 square-foot technology center, and a cutting-edge lab and ballistic testing range where our products undergo rigorous testing protocols to ensure performance that goes above and beyond expectations. Our production area houses state-of-the-art equipment which provides for maximum operator efficiency, increased output, and limited downtime. To this end, we have recently switched to Lectra's advanced technology to cope with the high performance required for the cutting of costly materials and for the manufacturing of products that require high accuracy. Moreover, this partnership has allowed us to respond to our needs for productivity, flexibility, total reliability, and cost control, all the while reducing our fabric consumption. For us, this is a strong argument that supports our mission to save lives by providing superior quality body armor with unparalleled protection, comfort, wearability, and service."

**Matt Davis**
**President and CEO**

# IMPROVE FLEXIBILITY, RELIABILITY, AND TRACEABILITY

Capable of lightening structures and of taking on complex shapes, composite materials—lighter and more resistant than steel, but very delicate, increasingly more technical, and particularly expensive—are cut like fabric before being rigidified and obtaining their final shape. Delicate and unstable at first, they become extremely resistant. Capitalizing on its experience in other markets, Lectra has extended its offer to these numerous industrial sectors. To respond to their individual exigencies, it has developed specific cutting solutions that guarantee just-in-time production, perfect traceability, and reduced material consumption. Their flexibility enables manufacturers to manage a diversified production that addresses a wide variety of materials. They also help protect operators from the hazards of certain materials and to meet the latest regulations regarding their safety.

# SHAREHOLDER INFORMATION

| (ineur os) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Share price – high | **6.81** | 4.45 | 3.25 | 5.80 | 6.50 |
| Share price – low | **4.12** | 1.85 | 1.80 | 2.63 | 5.15 |
| Share closing price [1] | **4.60** | 4.19 | 2.25 | 3.25 | 5.75 |
| Shareholders' equity per share [1] | **2.03** | 1.47 | 0.88 | 1.00 | 0.93 |
| Net cash (+) / debt (-) per share [1] | **0.30** | (0.09) | (1.70) | (2.00) | (1.79) |
| Earnings per share [2] | | | | | |
| • Basic | **0.67** | 0.56 | (0.13) | 0.11 | 0.19 |
| • Diluted | **0.65** | 0.55 | (0.13) | 0.11 | 0.18 |
| Number of shares [1] [3] | **28.9** | 28.5 | 28.5 | 28.5 | 28.5 |
| Market capitalization [1] [4] | **133.0** | 119.4 | 64.1 | 92.6 | 163.7 |
| Annual volume traded [4] [5] | **35.9** | 22.0 | 8.7 | 17.0 | 56.5 |
| Annual volume traded [3] [5] | **6.3** | 6.8 | 3.9 | 5.0 | 9.5 |

(1) At December 31.

(2) Earnings per share on basic capital are calculated using the weighted average number of shares. Earnings per diluted share are calculated according to the corresponding IAS rule.

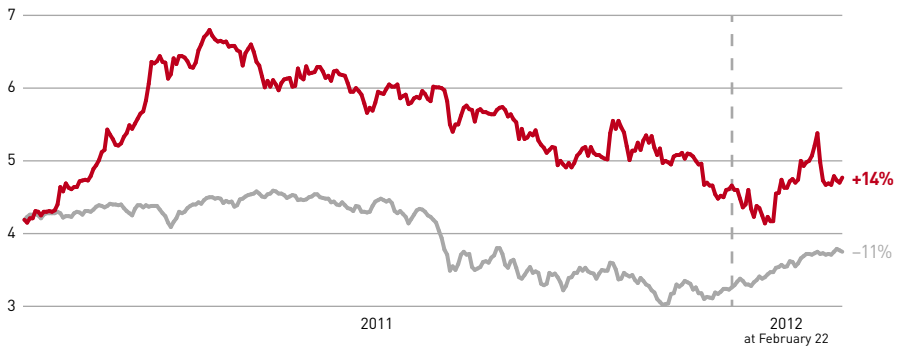
(3) In millions of shares.

(4) In millions of euros.

(5) Source NYSE Euronext.

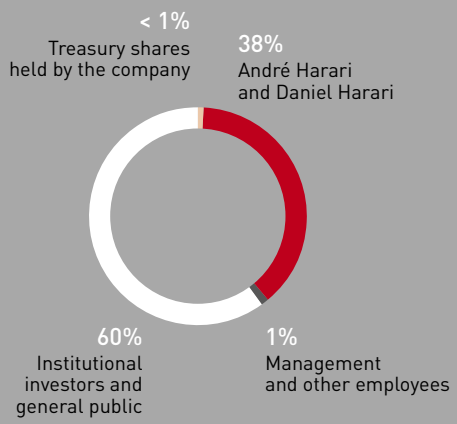
**Evolution since January 1, 2011**
(in euros)

— Lectra (daily closing price)
— CAC Mid&Small Index (base: December 31, 2010)



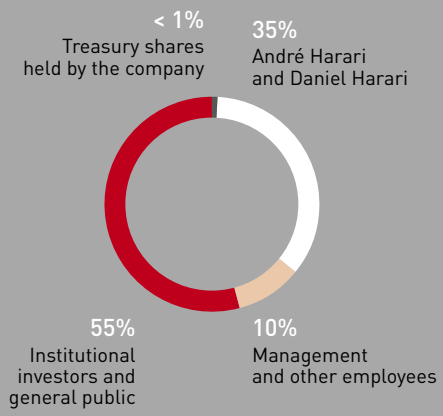

**Dividend**
In light of the company's excellent performance in 2011, and confirming its confidence in the company's future prospects, the Board of Directors proposed to declare a dividend of €0.22 per share, representing a 22% increase, and 33% of net income, subject to approval of the Shareholders' Meeting of April 27, 2012. Lectra's current objective is to continue its dividend payment policy.

(at February 23, 2012)
**Capital: 28,907,325 shares**




**Breakdown of capital**
The free float is close to 60%. Most is held by institutional investors. Delta Lloyd Asset Management (Netherlands) and Société Financière de l'Échiquier (France) each hold more than 10% (but less than 15%) and Schroder Investment Management (United Kingdom) holds more than 5% (but less than 10%) of the capital and the voting rights, on behalf of investment funds managed by them.

**Diluted capital: 31,764,752 shares**




**Breakdown of diluted capital**
Thanks to a motivating stock option program, the management (other than André Harari and Daniel Harari, who hold no stock options) and key employees (currently 157 persons, or 12% of the staff) hold nearly 10% of the diluted capital. The Group intends to pursue this selective policy of promoting employee share-ownership. At February 23, 2012, fully-vested stock options totaled 8% of the base capital.

# 2011

## Financial Report

# MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management Discussion and Analysis reports on the company's operations and financial results, as well as on those of all of its subsidiaries, for its thirty-eighth fiscal year, ended December 31, 2011.
It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 27, 2012 (available in French only), which, in addition, discusses in detail the financial statements and other disclosures relating to the parent company, Lectra SA, and presents the reasons underlying the draft resolutions submitted for approval by the shareholders.
To make the discussion of revenues and earnings as meaningful as possible, detailed comparisons between 2011 and 2010 are based on 2010 exchange rates ("like-for-like") unless stated otherwise.

## 1. SUMMARY OF EVENTS AND PERFORMANCE IN 2011

### Record Financial Performance, for the Second Consecutive Year

The rebound in activity in 2010 led to record financial results for Lectra and enabled it to enter 2011 with stronger key operating ratios, a radically transformed balance sheet, and a solid order backlog.
In its report of February 10, 2011, the company nevertheless stated that it had to continue to be cautious and vigilant, as analysts agreed on the recovery's fragility and on the possibility of another deterioration in the economic and monetary situation, especially in Europe and the United States.
In this context, Lectra's 2011 action plan sought to continue the sales momentum regained since the end of 2009, an operating margin equal to or greater than that of 2010, and significant free cash flow generation. As in prior years, the main uncertainty concerned the level of revenues from new systems sales, which is heavily dependent on the economy. Moreover, the very strong rebound in sales activity together with the outstanding results and free cash flow achieved in 2010 constituted a high basis of comparison for 2011; growth rates could not do otherwise than lessen.
Financial results for the year are in line with the central scenario announced by the company on February 10, 2011, as updated only by the impact of exchange rate fluctuations (particularly with an annual average parity of $1.39/€1, instead of the $1.35/€1 exchange rate assumed at the beginning of the year).
Revenues amounted to €205.9 million, with an income from operations before non-recurring items of €28.9 million and an operating margin of 14%, rising by 10%, 35%, and +2.7 percentage points respectively, relative to 2010. Net income at €19.2 million was superior to estimates announced at the beginning of the year, rising by +35% at actual exchange rates, relative to the 2010 figure restated for non-recurring items. Free cash flow (€14.2 million) was in line with expectations.
Lectra registered another record financial performance in 2011, after that achieved in 2010. This performance was even more remarkable given that the macroeconomic environment was worse than expected. Global economic conditions were impacted by the tragic disasters in Japan and the floods in Thailand in addition to the geopolitical crises in certain North African and Middle Eastern countries, as well as by a new context of economic, financial, and monetary crisis starting in July. Causes of this new deterioration included rising concerns over sovereign debt in the United States and certain European countries, the crisis of the eurozone, renewed turmoil in the financial markets, and the (sometimes sharp) downward revisions of growth forecasts for 2012 and 2013 in most developed and emerging countries.

### Orders Remain Stable, Coming After Very Strong Growth in the First Half

On the strength of its technology and services offer, the company fully benefited from a partial return to more dynamic macroeconomic conditions in most of its geographic markets and market sectors in the first half of 2011, before entering a period of slowdown in Q3. The worsening of the economic climate in the closing months of 2011 increased concerns and weighed heavily on companies' investment decisions, leading to a significant fall in orders in Q4.
Overall, orders for new software licenses and CAD/CAM equipment amounted to €78.4 million, a rise of 2% relative to orders in 2010. The latter had already increased 51% relative to 2009, a year severely affected by the crisis.

The situation in the different regions and market sectors remains heterogeneous, with wide disparities in some cases.
The orders for new software licenses fell 4%; those for CAD/CAM equipment were up 5%. This difference stems primarily from the market sector mix: while the automotive sector once again recorded a very strong increase of 64% (after a rise of 115% in 2010 relative to 2009), the fashion sector was down 22%. For the first time in the company's history, the relative share of the automotive market was very close to that of the fashion sector, with respectively 41% and 45% of total orders (26% and 58% in 2010). Furniture and other industries were down 12% and 11%.

### Emerging Countries Have Rebounded Faster and are Close to their Pre-Crisis Levels

Orders booked in the Americas jumped 17%—driven by the United States and Mexico—while they rose 10% in the Asia-Pacific region. In Europe they were down 5%, with the Eastern European countries registering strong growth and the others a decline, and in the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.) they were down 35%. Orders in emerging countries increased 7%; those in developed countries dropped 3%. Penalized by the state of the global economy in the second half of the year, aggregate activity with all clients has yet to return to pre-crisis levels. Relative to 2007, orders were still down 27% overall.
While the vitality of the emerging countries—powered by China (+17%), Brazil (+28%), and Mexico (+77%)—have for the most part caught up after their shortfall, now behind by only 6% compared to 2007, developed countries are still lagging behind by 42%.
Currently, emerging countries account for the majority of aggregate orders, their share rising from 41% in 2007 to 53% in 2011.

### Revenues Continue to Grow

Revenues for 2011 totaled €205.9 million, up 10% like-for-like and 8% at actual exchange rates, compared to 2010. In 2010, they had already risen 20%, following sharp falls in 2008 and 2009.
Growth worked out to 1% in Europe, 12% in the Americas, and 34% in the Asia-Pacific region. These three regions accounted for 48% (including 10% for France), 21%, and 26% of total revenues respectively. Revenues from the rest of the world, representing 5% of total Group revenues, decreased 11%.
Although orders were stable, revenues from new systems sales (€97.7 million) increased 18% thanks to the strong opening order backlog. Recurring revenues (€108.2 million) increased 3%, with a decrease of 1% in revenues from recurring contracts and an increase of 10% in revenues from spare parts and consumables. The latter registered a historic record of €43.7 million (representing 21% of aggregate revenues), reflecting the growth in production volumes and the expanding installed base.
Revenues from new systems sales regained their position as Lectra's growth driver in 2010 and 2011, after the crisis years of 2008 to 2009, when recurring revenues demonstrated their key role as an essential stabilizing factor and cushion for the company.

### Order Backlog Down Sharply

Orders for new software licenses and CAD/CAM equipment were below corresponding revenues; the order backlog (€10.5 million) is thus down sharply relative to December 31, 2010 (€18.5 million). This decline is a direct result of the significant slowdown in orders in the closing months of the year.
The order backlog at December 31, 2011, comprised €9.2 million for shipment in Q1 2012 and €1.3 million over the rest of the year.

### Overhead Costs Rise More Moderately Than Expected

As early as July 2008, the company adopted measures intended to limit expenses, slowing recruitment and tightening its grip on overhead costs. These measures, which were reinforced in 2009 and 2010, enabled the company to cut fixed overhead costs by €25 million, or -20%, relative to 2007 (€123.8 million).
Meanwhile, in order to reinforce its competitiveness and its technology lead, the company continued to invest steadfastly in research and development (R&D expenditures being expensed in full and included in fixed overhead costs).
With a total of €102.1 million, fixed overheads costs rose only €2.1 million (+2%). In the final outturn they were

lower than anticipated (the company having forecast a rise of 4% at the beginning of the year), due in particular to certain postponed recruitments.
At the same time, variable costs (€13.3 million) rose 7%.

### Income from Operations and Net Income Up Very Sharply—Operating Margin Rises to a New Historic High

Income from operations reached €28.9 million. Like-for-like, it was up €7.9 million (+35%) relative to income from operations before non-recurring items in 2010.
At actual exchange rates, it improved by €6.1 million, while revenues increased €15.6 million; this increase represents close to 40% of the increase in revenues.
Income from operations in 2010 benefited from a non-recurring net gain of €2.2 million. There were no non-recurring items in 2011.
At 14%, the operating margin rose once again compared to the operating margin before non-recurring items in 2010, which had already reached a record 12%. Its highest previous level was 10% in 2000. This standout performance is particularly noteworthy given the prevailing economic climate of 2011.
Comparison with 2007 illustrates the improvement in the company's operating ratios during the crisis years and shows the relevance of the strategic plan mapped out at the end of 2009. Like-for-like, despite a €13.8 million (– 6%) decline in revenues—which was due mainly to the decrease in new systems sales, as recurring revenues (after having been impacted) exceeded their pre-crisis levels by 3%—income from operations before non-recurring items multiplied by 2.5. The operating margin was up 8.5 percentage points. This performance can be attributed to a 3-percentage-point increase in gross profit margin and a €22.9 million (– 18%) reduction in fixed overhead costs.
Net income was €19.2 million, representing 9.3% of revenues, compared to €15.6 million in 2010.

### Lectra Obtains *Exequátur* in Spain of the October 2009 Award Rendered by the International Arbitral Tribunal against Induyco

In a decision of *exequátur* issued on June 27, 2011, the Madrid Court of First Instance recognized the arbitral award rendered against Induyco in October 2009 by an International Arbitral Tribunal seated in London, which had awarded Lectra total damages of €26 million (as at December 31, 2011).
Confirming the validity and enforceability of the award in Spain, this decision represents a major milestone in the settlement of this dispute.
Induyco appealed this judgment, and the two parties have submitted their written findings. The Madrid Court of Appeal is expected to hand down its decision in late 2012 or early 2013.
Induyco having appealed the June 27, 2011, decision, this decision does not entail any modification of the recognition of the award in the company's financial statements: the company has only recorded the €15.1 million received in 2010 which resulted in a non-recurring gain of €3.3 million in the third quarter.
The €10.9 million balance still due by Induyco will only be recorded upon its receipt (see note 23 to the consolidated financial statements).

### A Transformed Balance Sheet, Returning to a Positive Net Cash Position

With free cash flow of €14.2 million (bringing cumulative free cash flow before non-recurring items generated in 2010 and 2011 to €45.2 million, and to €58.6 million after non-recurring items), the net cash position is positive at €8.6 million at December 31, 2011, whereas the company had net financial debt of €2.4 million at December 31, 2010, and of €47.8 million on December 31, 2009. This therefore represents an improvement of €11 million in the fiscal year and €56.4 million in two years, after payment of a total dividend of €5.2 million in May 2011. No dividend had been paid since 2007.
At the same time, shareholders' equity rose €16.7 million to €58.7 million.
Restated for the (French) research tax credit of 2010 and 2011, which has not been received and has not been offset against a tax charge, the working capital requirement was negative at €11.5 million. This is a key feature of the company's business model.

## 2. ACQUISITIONS AND PARTNERSHIPS

The company made no acquisitions in 2011 and did not enter into any new strategic partnership agreements.

## 3. CONSOLIDATED FINANCIAL STATEMENTS FOR 2011

The consolidated financial statements are an integral part of this report.
With an average parity of $1.39/€1, the U.S. dollar was down by nearly 5% compared to 2010 ($1.33/€1). This change, and that of other currencies, mechanically reduced revenues by 1% and income from operations by €1.9 million (– 6%), at actual exchange rates, compared to like-for-like figures.

### Revenues

Revenues for 2011 totaled €205.9 million, up 10% like-for-like and up 8% at actual exchange rates compared to 2010.

#### Revenues from New Systems Sales

Revenues from new software licenses (€25.3 million) increased 8% and, as in 2010, contributed 12% of total revenues.
CAD/CAM equipment revenues (€63 million) were up 25% and accounted for 31% of total revenues (compared to 27% in 2010).
Revenues from training and consulting (€8.9 million) were up 5%.
Overall, revenues from new systems sales (€97.7 million) increased 18% and represented 47% of total revenues (compared to 44% in 2010). This 3-percentage-point increase reflects dynamic sales activity from Q4 2009 to the end of H1 2011.

#### Revenues from Recurring Contracts and Spare Parts and Consumables

Recurring revenues (€108.2 million) increased €3.3 million (+3%). They accounted for 53% of total revenues (compared to 56% in 2010).
Revenues from recurring contracts totaled €62.6 million and represented 58% of recurring revenues and 30% of total revenues. After falling due to unusually high cancellation rates in 2008 and 2009 as a result of the crisis and to a weak rebound in 2010, these revenues have now essentially stabilized (–1%).
Concerning almost two-thirds of Lectra's 23,000 customers, revenues from recurring contracts break down as follows:

– software evolution contracts (€29.8 million), up 1% compared to 2010 and representing 14% of total revenues (16% in 2010);
– CAD/CAM equipment maintenance contracts and subscription contracts to the Group's five International Call Centers (€32.8 million), down 3% and representing 16% of total revenues.
Meanwhile, revenues from spare parts and consumables (€43.7 million) grew 10%.

### Gross Profit Margin

The overall gross profit margin worked out to 70.1%. Like-for-like, it came to 70.4%, down 1.1 percentage points relative to 2010 (71.5%).
Changes in the product mix, with a rise in the share of CAD/CAM equipment and spare parts and consumables in total revenues, for which specific margins are lower than for the other revenue components, mechanically entailed a fall in the overall gross profit margin.
This effect was cushioned by the sharp rise like-for-like in margins on each product line, and in particular on CAD/CAM equipment, again demonstrating their robustness despite major pressure from competitors, which was further heightened by the crisis.
This excellent performance constitutes one of the successes of Lectra's 2011 action plan, demonstrating the competitiveness and high added value of its offer.
It is important to note that personnel expenses and other operating expenses incurred in the execution of service contracts are not included in the cost of sales but are recognized in selling, general, and administrative expenses.

### Overhead Costs

Total overhead costs were €115.4 million, up €2.9 million (+2.6%) compared to 2010. They break down as follows:
– €102.1 million in fixed overhead costs, up €2.1 million (+2%);
– €13.3 million in variable costs, up €0.9 million (+7%).
Research and development costs were fully expensed in the period and included in fixed overhead costs. Before deducting the research tax credit applicable in France and certain R&D program grants, R&D costs amounted to €18.2 million and represented 8.9% of revenues (compared to €16.1 million and 8.5% in 2010). Net R&D

costs after deduction of the French research tax credit (the aggregate rate of which was lower in 2011 as a result of tax changes) and grants amounted to €11.5 million (€9.5 million in 2010).

### Income from Operations and Net Income

Income from operations was €28.9 million. Like-for-like, it amounted to €30.8 million, an increase of €7.9 million (+35%) relative to income from operations before non-recurring items for 2010 (€22.8 million). At actual exchange rates, it increased €6.1 million (+27%).
The operating margin was 14%. Like-for-like, it worked out to 14.7% and increased 2.7 percentage points compared to the operating margin before non-recurring items of 2010 (12%). This represents an increase of 2 percentage points at actual exchange rates.
Financial income and expenses represent a net charge of €1.5 million. The balance of foreign exchange gains and losses was a negative €0.2 million.
After an income tax charge of €8 million, net income was €19.2 million (or 9.3% of revenues). Net income increased €3.6 million at actual exchange rates relative to net income in 2010, which had benefited from a non-recurring gain of €3.3 million in connection with the €15.1 million resulting from the arbitration against Induyco and which had registered a €1.1 million non-recurring charge. There were no non-recurring items in 2011. Excluding non-recurring items, net income was up €5.0 million (+35%).
Net earnings per share on basic capital (€0.67) increased 20% and on diluted capital (€0.65) 18% at actual exchange rates (€0.56 and €0.55 in 2010). Excluding non-recurring items of 2010, the increase works out to 34% and 30%, respectively.

### Free Cash Flow

Free cash flow amounted to €15.2 million before non-recurring items (€30 million in 2010). The 2010 figure included €6.2 million arising from early repayment of the 2009 research tax credit, the French government having rescinded in 2011 this measure which was part of its economic stimulus plan.
After €1 million in non-recurring disbursements, free cash flow amounted to €14.2 million (€44.4 million in 2010 after receipt of a non-recurring amount of €14.4 million). This figure results from cash flow provided by operating activities of €17.7 million (out of which an increase in working capital requirement of €9.9 million) and used in investing activities of €3.5 million (see note 37 to the consolidated financial statements).
The 2011 research tax credit (€5.5 million) was registered but not received.
If the research tax credit of 2011 had been received, free cash flow before non-recurring items would have amounted to €20.7 million, exceeding net income by €1.5 million.

### Shareholders' Equity

At December 31, 2011, shareholders' equity amounted to €58.7 million (€42 million at December 31, 2010).
This figure is calculated after deduction of treasury shares held solely within the Liquidity Agreement with SG Securities (Société Générale), carried at cost, i.e., €0.7 million (versus €0.4 million at December 31, 2010).
It is also calculated after deduction of the total dividend of €5.2 million paid in respect of fiscal year 2010, as decided by the Ordinary Shareholders' Meeting of April 29, 2011.
Cash and cash equivalents totaled €26.3 million (€30.2 million at December 31, 2010) after early repayment by the company, at its own initiative, of €10 million on its medium-term bank loan, on December 31, 2011.
Financial borrowings totaled €17.7 million (€32.6 million at December 31, 2010), of which:
– €15.9 million corresponds to the medium-term bank loan put in place to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007. In 2010, the company made the first two contractual repayments, each of €3.8 million, as well as a first early reimbursement of €10 million on December 31, this being deducted from the contractual installments payable in 2011. In 2011, the company made two additional early reimbursements: €3.8 million on June 30 in compliance with the contractual excess cash flow clause, and €10 million on December 31; this reduced the contractual installments payable in 2012 to €0.6 million.
– €1.8 million corresponds to interest-free government advances to help finance R&D programs.

Consequently, the net cash position was positive at €8.6 million at December 31, 2011, whereas the company had a net financial debt of €2.4 million at December 31, 2010.
The working capital requirement at December 31, 2011, was negative at €1.4 million. It comprised a receivable of €10.1 million corresponding to the (French) research tax credit of 2010 and 2011, which has not been received and has not been offset against a tax charge. Restated for this receivable, the working capital requirement was negative at €11.5 million. This is a key feature of the company's business model.
Given the improvement in the company's financial ratios, the margin on interest due on the medium-term loan was reduced from 1.85% in 2010 to 0.95% as at January 1, 2011, in accordance with the loan contract (see note 13 to the consolidated financial statements).

## 4. RISK FACTORS—MANAGEMENT OF RISKS

This chapter describes the main risks facing the company having regard to the specific characteristics of its business, its structure, and its organization. It further describes how the company manages and prevents these risks, depending on their nature.
In light of current economic conditions, this chapter has been reorganized to better identify risk factors specific to the Group, or those that have undergone a change in intensity. They have been arranged by order of priority, according to whether they are of high, secondary, or low importance. This will permit a more accurate assessment of the impacts of different short and medium-term global financial and economic scenarios on the company's financial condition, results, and strategy.
Meanwhile, the management and prevention of these risks—thanks in particular to the nature of Lectra's business model, the improvement in its operating ratios, and the transformation of its balance sheet—have been clarified.

### Identification of Risks

For internal controls to be pertinent, the company needs to be able to identify and assess the risks to which it is subject. These risks must be identified by means of a continuous process, taking into account the changes in the Group's external environment together with the organizational changes rendered necessary by the evolving nature of its markets. This process is overseen by the Finance division and the Legal Affairs department, with input from all Group operating and corporate departments.
The company has reviewed risks liable to have a significant adverse impact on its activity, financial condition, or earnings (or its ability to fulfill its objectives), and considers that there are no other significant risks than the ones discussed below.
The key factor protecting the Group against risks is its business model, which comprises two types of revenue streams:
– revenues from new systems sales (new software licenses and CAD/CAM equipment, and related services), the company's growth driver;
– recurring revenues, consisting partly of recurring contracts (e.g., software evolution, CAD/CAM equipment maintenance, and on-line support contracts), and partly of other statistically recurring revenues generated by the installed base (sales of spare parts and consumables, per-call maintenance and support interventions). These recurring revenues are a key factor in the company's stability, acting as a cushion in periods of slow overall economic growth.
The gross profit generated by recurring revenues alone covers more than 75% of annual fixed overhead costs.
In addition, the business model is geared to generating free cash flow in excess of net income—assuming utilization or receipt of the annual research tax credit applicable in France—enabling the Group to finance its future growth out of its own cash, with a practically zero working capital requirement.

### 4.1. Macroeconomic Environment Risks

The solutions marketed by the Group represent a sometimes sizable investment for its customers. Part of the decision depends on the general macroeconomic environment and on the state of the sectors of activity in which the customers operate. They could scale back or defer their investment decisions when global economic growth slows or when a particular sector suffers a downturn or is in crisis. The Group is consequently exposed to the global economic cycle.

### Risks Connected with the Economic and Financial Crisis

The deteriorated macroeconomic environment has been the chief risk affecting the Group since the onset of the economic and financial crisis in 2008.
This unprecedented crisis has severely impaired the situation of countries the world over and companies in all sectors. The resulting sharp slowdown in activity among Group customers, the deterioration of their financial performance, their uncertain outlook, and their reduced access to credit making it hard for them to finance their investments have meant that many companies have taken steps to reduce costs, cut back or temporarily halt production, close plants, and freeze investments.
After the first stirrings of recovery in 2010, the global economic and financial crisis returned in late 2011. The scale and duration of this renewed crisis are uncertain, combining especially the sovereign debt difficulties in the United States and certain European countries, the risk of eurozone implosion, and the downward revisions of 2012 and 2013 growth forecasts for most developed and emerging countries.
Customer firms, meanwhile, are at risk of a renewed credit squeeze and greater difficulty in funding their capital expenditures.
Even more important than deteriorating macroeconomic conditions, the alternation between good and bad news, poor visibility, and corporations' growing concerns pending the first signs of a durable improvement in the economy, will weigh heavily on their investment decisions, and hence on Group revenues and earnings.

### Risks Related to Geographic Sectors and Market Sectors

Outside periods of severe economic crisis, the risks associated with the company's business activity are naturally hedged by the worldwide spread of the company's sales and services, and by their spread across a number of market sectors (chiefly the fashion and automotive sectors, which respectively accounted for 49% and 38% of revenues from sales of new systems in 2011 for a combined total of 87%) with different business cycles and growth rates, serving to offset these risks.
The far-reaching changes being brought about by globalization, such as relocation and repatriation of production, are resulting in revenue loss in one country and gains in another. Thanks to its strong presence in the major emerging countries, forecast to generate half of total global growth in the coming decade, the Group is well placed to turn this into a dynamic growth vector for itself. The other half of global growth is expected to take place in the developed countries, where the Group has a historical presence and a large market share.
In 2011, more than 85% of total revenues was generated in 10 countries or country groups (Germany and Eastern Europe, Brazil, China, South Korea, Spain, the United States and Mexico, France, Italy, Japan, and Portugal), none of which accounts individually for more than 15%.

## 4.2. Economic and Operational Risks Specific to the Company's Business

Lectra designs, produces, and markets full-line technological solutions—comprising software, CAD/CAM equipment, and related services—designed specifically for industries using textiles, leather, industrial fabrics, and composites. It addresses a broad array of major global markets, including fashion (apparel, accessories, and footwear), automotive (car seats and interiors, airbags), furniture and a wide variety of other industries, such as the aeronautical and marine industries, wind turbines, etc.

### Innovation Risks

This activity demands continuous creativity and a steadfast search for innovation. The company needs to retain its technological leadership in its historical business of CAD/CAM software and equipment and related services, which now account for the vast bulk of its revenues. The Group is world number one in this sector, with an estimated market share of around 25-30%. In addition, it faces competition from the global software leaders in the new area of Product Lifecycle Management (PLM) for the fashion sector, which is expected to be a growth driver in the medium term.
The company consequently invests heavily in research and development, which accounts for around 9% of revenues, before deduction of the research tax credit applicable in France and subsidies linked to certain R&D programs. Despite the quality of the engineers and the development of projects, some programs may carry a risk of technical or commercial failure. R&D expenditures are fully expensed in the year. Consequently, the Group's

technology assets are valued at zero in the statement of financial position, and there is therefore no risk of impairment.
As a corollary of this policy, the company must ensure both that its innovations are not copied and that its products do not infringe third parties' intellectual property. It therefore has a dedicated team of intellectual property specialists that takes both offensive and defensive measures with regard to patents.

### Production Risks

Moreover, the decision in 2005, made after deep consideration, to maintain Lectra's R&D and production in France has enabled it to meet the three challenges it faced, namely: to compete with the low-cost products of its international competitors that had relocated to China and those of its Asian competitors; to boost its competitiveness in the face of a persistently weak dollar against the euro; and to boost its margins. Its intellectual property was also protected. This risk-protection strategy was made possible only through innovation. The question of relocating or repatriating production has therefore been settled and will not affect the Group's strategy.
A substantial portion of the manufacturing of the equipment the company markets is subcontracted, with Lectra providing only the research, development, final assembly, and testing of the equipment that it produces and sells. The technical, logistic, or financial failure on the part of an important subcontractor could result in delays or defects in equipment shipped by the company to its customers. To reduce this risk to a minimum, subcontractors undergo technological, industrial, and financial scrutiny of their situation and performance, prior to selection and then continuously. The assessment is then updated at regular intervals, the frequency depending on the criticality of the product supplied by the subcontractor.
Moreover, the Group may face global shortages of certain components or parts used in the manufacture of its products. This risk of a supply chain breakdown could affect its capacity to fulfill customers' orders. This is reviewed continuously, and buffer inventories are maintained of the parts and components concerned, depending on the likely risk of shortage.
There is little risk of the Group being unable to respond to a rapid growth in sales of CAD/CAM equipment and shipments of spare parts and consumables, since the Bordeaux-Cestas (France) manufacturing site has sufficient capacity to increase its output by 50% with no major new investment and around 50 additional staff members. In order to double the plant's output, a further 40% of floor space would be required, in addition to the existing 10,000 m$^2$. It should be borne in mind that the land and buildings comprising the Bordeaux-Cestas site, the economic value of which currently exceeds its historical cost of €10.3 million, figure only in the statement of financial position for a net value of €3.6 million.

## 4.3. Market Risks

Because of its international presence, foreign exchange risk is the principal market risk to which the Group is exposed.
There is little significant exposure to interest rate risk at present.
It is Group policy to manage these risks conservatively, refraining from any form of speculation, by means of hedging instruments.

### Specific Foreign Exchange Risks

A substantial proportion of revenues is denominated in various currencies whose fluctuations against the euro constitute a foreign exchange risk for the Group. The mechanical and competitive effects on the Group's financial statements of fluctuations in these currencies against the euro are particularly large since its only research and development sites are located in France (mainly) and Spain, and its production is carried out in its facilities located in France.
The Group is especially sensitive to variations in the U.S. dollar/euro exchange rate, as well as in other currencies, in particular the Chinese Yuan owing to its progressive decorrelation in respect of the dollar, as well as to the growing volume of activity in China, and the major role it now plays in the Group's competitiveness with regard to certain of its Chinese competitors or international competitors whose products are manufactured in China.
In 2011, 51% of the Group's consolidated revenues, 91% of its cost of sales, and 71% of its overhead expenses

were denominated in euros. These percentages were respectively 29%, 7%, and 14% for the U.S. dollar. The Chinese Yuan represented nearly 6% of revenues, the other currencies each representing less than 5%; individually, their share of the cost of sales is negligible and less than 5% of overhead costs.

These currency fluctuations impact the Group at two levels:

– impact on competitive position: the Group sells its products and services in global markets, competing primarily with its main competitor, a U.S. company that currently manufactures its equipment in China, as do its Asian competitors. As a result, prices are generally dependent on the U.S. dollar but also on the Chinese Yuan;

– translation impact:

- in the income statement, as accounts are consolidated in euros, revenues, gross profit, and net income of a subsidiary conducting its business in a foreign currency are mechanically affected by exchange rate fluctuations when translated into euros;
- on balance sheet positions, this refers primarily to foreign currency accounts receivable, in particular to those between the parent company Lectra SA and its subsidiaries, and it corresponds to the variation between exchange rates at collection date and those at billing date. This impact is recognized in "Foreign exchange income/loss" in the income statement.

Currency risk is borne by the parent company. The Group seeks to protect all of its foreign currency receivables and debts as well as future cash flows against currency risk on economically reasonable terms. Hedging decisions take into account currency risks and trends where these are likely to significantly impact the Group's financial condition and competitive situation. The bulk of foreign currency risks concerns the U.S. dollar.

The Group generally seeks to hedge the risk arising in respect of its net operational exposure to the U.S. dollar (revenues less all expenses denominated in U.S. dollars or strongly correlated currencies) by purchasing dollar puts or by forward currency contracts, when justified by the cost of the hedge.

The financial impact of fluctuations in the U.S. dollar/euro exchange rate on the Group financial statements before hedging, if any, on the average parity on December 31, 2011 ($1.30/€1), is the following: an average rise in the dollar of $0.05 against the euro (taking the parity from $1.30/€1 to $1.25/€1) would mechanically increase revenues by around €2.5 million and income from operations by around €1.3 million. Conversely, a fall in the dollar of $0.05 (taking the parity from $1.30/€1 to $1.35/€1) would decrease revenues and income from operations by the same amounts.

The Group's statement of financial position exposure is monitored in real time; it utilizes forward currency contracts to hedge all relevant receivables and debts.

### Interest-Rate Risks

The Group has no significant interest-rate risk exposure at present.

This is because it has sharply reduced its financial debt in recent years, from €66.5 million at December 31, 2008, to €17.7 million at December 31, 2011.

At the same time, just €2.9 million (17% of total debt) of this figure was exposed to interest-rate risk at that date, the remainder of debt being hedged by interest-rate swaps or being interest free.

Sensitivity to interest rate fluctuations is discussed in note 13.5 to the consolidated financial statements.

Finally, the Group follows a conservative policy in short-term investing of its cash surpluses, placing them only in money market mutual funds classified as "euro money market funds" by the *Autorité des Marchés Financiers*, in negotiable certificates of deposit issued by the company's banks, or in interest-bearing sight accounts.

### Stock Market Risks

The Group does not hold any interests in listed companies other than its own shares held under a Liquidity Agreement (see note 10.2 to the consolidated financial statements), and is therefore not subject to stock market risk.

## 4.4. Client Dependency Risk

The company's installed base covers 23,000 customers in 100 countries. Each year, revenues from new systems, accounting for nearly 50% of total revenues, are generated by around 10 to 20% of customers and includes sales to new customers, together with extensions to or the renewal of existing customers' installed bases.

Revenues from recurring contracts, accounting for around 30% of total revenues, are generated on almost two-thirds of Lectra's customers. Finally, sales of spare parts and consumables, which account for 20% of total revenues, are generated on a large proportion of the installed CAD/CAM equipment.
There is no material risk of dependence on any particular customer or group of customers, as no individual customer represented more than 6% of consolidated revenues in 2011, as was the case in earlier years, and the 10 largest customers of the company represented less than 20% of revenues cumulatively, and the top 20 customers less than 25%.

## 4.5. Legal and Regulatory Risks

The company markets its products in more than 100 countries through a network of 31 sales and services subsidiaries, supplemented by agents and distributors in countries where it does not have a direct presence. Consequently, it is subject to a very large number of legal, customs, tax, and social regulations in these countries. While the company's internal control procedures provide reasonable assurance of compliance with the prevailing laws and regulations, unexpected or sudden changes in certain rules (particularly regarding the establishment of trade barriers), as well as political or economic instability in certain countries, are all liable to impact the revenues and results of the Group.
From a tax point of view, there are many intra-Group flows requiring the existence of a transfer pricing policy compliant with French, local, and international guidelines (in particular the OECD). Adequate documentation setting forth Group policy in this regard has been put in place.
R&D activity benefits from the French research tax credit *(Crédit d'Impôt Recherche*), which in 2011 represented €5.5 million, or 30% of the total corresponding expense, 19% of income from operations, and 29% of net income. Any significant future reduction or abrogation of this tax credit would have an impact on Group income.
In the normal course of its business, the Group may be involved in various disputes and lawsuits. The Group considers that there are no other governmental, judicial, or arbitral proceedings, including all proceedings of which the Group has knowledge, pending or which could threaten it, for which no provision has been made in the financial statements and liable, either individually or severally, to have material impacts on the financial condition or earnings of the Group, with the exception of the dispute with Induyco still pending (see note 23 to the consolidated financial statements).
Finally, the company is listed on NYSE Euronext and is therefore subject to stock market regulations, particularly those of the *Autorité des Marchés Financiers* (AMF), the French Financial Markets Authority.

## 4.6. Human Resources Risks

The Group's performance depends primarily on the competence and expertise of its personnel, the quality of its management, and its capacity to federate its teams in addressing the Group's strategic challenges.
Any departure within the management team or of certain experts can affect the company's operations and financial results, given its size, the breadth of its international reach, the array of market sectors covered, and the components of its business—research and development, sales of technology solutions geared to implementing customer projects, together with the provision of consulting and expertise, user training in Lectra solutions, onsite support and remote support via the Group's in-house international Call Centers, manufacturing and logistics, administration and finance.
The mission of the human resources staff is to limit these risks through four main axes: carrying out an ambitious and continuous training policy to sustain the development and transfer of skills and experience; applying principles of fairness in compensation based on the recognition of merit and performance; continuously adapting the Group's organization to changes in its geographic markets and market sectors, emphasizing a high degree of flexibility and adaptability; and implementing a structured recruitment process, with very strong interaction between the Group's management team, the different corporate departments, and the subsidiaries in order to attract and retain suitably qualified personnel for its various activities.
After three years of deteriorated and uncertain macroeconomic conditions, the Group decided to focus on its long-term strategy. In September 2011 it stepped up its transformation plan, the main pillar of which is an

ambitious recruitment program for 2012 and 2013, aimed primarily at bolstering its sales and marketing teams, while remaining within tight budget constraints.
To accompany this plan, the Group has put in place performance assessment, continuous improvement, training, and coaching programs entailing a major investment by management and human resources teams to ensure successful outcomes. Measures taken in this regard focus on four main themes, namely: a constant effort to develop the knowledge and skills of teams in direct link with new technologies and the development of the company's markets ; reinforced internal communications to share the strategy and the stakes of the company as well as the development of unifying company projects; optimization of internal processes; and the deployment of upgradable information systems on which the Group is regularly investing and of state-of-the-art IT infrastructures permitting direct exchanges among all teams regardless of worldwide location and mode of connection.
Lectra places a high premium on compliance with existing labor regulations wherever it operates. It regularly audits its subsidiaries to ensure they are compliant with local laws and regulations. Its active policy of transparency in the disclosure of information and in managing its labor relations is one means to achieving a positive social climate, enabling the company to underpin its development and deal constructively with economic uncertainty.
Significant efforts have been made to ensure a high level of safety in the workplace, achieving an accident rate close to zero, in R&D and manufacturing activities as well as during maintenance interventions on customer systems. Likewise, considerable efforts are made to identify and evaluate risks, thanks to targeted action plans to ensure that all company activities are carried out safely. This general process is overseen by a safety engineer, with the active involvement of management, via accident prevention campaigns, personnel training (more than 300 people underwent safety-related training in 2011), and deployment of concrete means to increase safety. For example, the company has implemented computer-assisted goods handling aids in all parts of the manufacturing shop; it has banned the use of chemicals that present a cancer hazard; and it has installed automatic defibrillators at its Paris and Bordeaux-Cestas (France) sites and provides training in their use.
Thanks to its accident prevention policy, Lectra has achieved a very good accident record, with accident frequency and severity rates respectively 6 and 65 times below national indicators in France.

## 4.7. Credit Risks

The Group is exposed to credit risks in the event of default by a counterparty. This risk is heightened in the context of the global economic crisis. The Group pays close attention to the security of payment for the systems and services delivered to its customers. It notably manages this risk via a range of customer risk management procedures. In particular, these procedures entail preventively analyzing its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears.
If, in spite of the foregoing, the Group considers that it is exposed to a risk of non-collection of a customer receivable, it recognizes impairment on the said receivable.
Historically, credit risk losses have been very low for the Group, representing less than 1% of annual revenues, thanks to the terms of payment it applies, with in particular down payments required at the time of the order and upon shipment, and annual or quarterly payment in advance for recurring contracts. Sales to countries subject to high economic or political risks are for the most part guaranteed by irrevocable and confirmed letters of credit or by bank guarantees. Net customer receivables turnover, measured in revenue days (including all taxes) at December 31, 2011, represents less than 10 days.

## 4.8. Liquidity Risks

The risk that the Group may have to contend with a short-term cash shortage is very low.
The Group's balance sheet has been transformed in recent fiscal years, moving from a net financial debt of €56.4 million on shareholders' equity of €28.6 million at December 31, 2008, to a positive net cash of €8.6 million on shareholders' equity of €58.7 million at December 31, 2011. Financial debt has fallen from €66.5 million to

€17.7 million and available cash has increased from €10.2 million to €26.3 million.
As a consequence of the early repayments made by the Group at its initiative in 2010 and 2011, contractual repayments on the medium-term bank loan have been reduced to €0.6 million in 2012; the balance outstanding of €15.3 million is repayable in two half-yearly installments in 2013.
In light of the improvement in the Group balance sheet and profitability, there is negligible risk of non-compliance with covenants possibly necessitating early repayment of the loan in full, at the time of this report. At the same time, the loan contract entitles the banks to demand early repayment of the balance of the loan outstanding under a "change of control" clause in the event that one or more of the company's shareholders, acting in concert—with the exception of André Harari and/or Daniel Harari—came to hold more than 50% of the share capital and/or voting rights (see note 13.2 to the consolidated financial statements).
Available cash is held exclusively in interest-bearing sight accounts and negotiable certificates of deposit issued by the company's banks. It represents a comfortable and sufficient liquidity reserve for the Group.
Thanks to its structurally near-zero working capital requirement, any cash flows generated by the Group help to bolster its liquidity.

## 4.9. Information Systems Risks

The Group is exposed to various risks in connection with its information systems and the extensive use made of them, which is essential to the company's operations.
With respect to the security of information systems, the Group has put in place a business continuity plan incorporating resources designed to guarantee a coherent and rapid restoration of critical data and applications in the event of an incident.
Foremost among these means is the replication of systems in real time in a backup room, physical protection of technical facilities (with a generator, surge protector, redundant climate control, and a permanently monitored fire control system on constant alert), and daily backup on tapes (stored in an offsite safe in a remote building). Virtual server, cluster, and storage bay replication technologies all serve to guarantee very rapid deployment of the business continuity plan.
In addition, the different means of communication in place (including an international private network, remote access solutions, and videoconferencing) enable all employees to exchange and share information in a totally secure environment regardless of location and mode of connection.
Moreover, the Group subjects its information security processes and procedures to verification. It conducts regular audits to identify potential deficiencies and rectify them appropriately, implementing new technologies as they become available, and building awareness among its staff and providing training for them in the application of and compliance with security procedures. Access to IT resources is centralized in a single directory, under the exclusive control of a dedicated team.

## 4.10. Insurance and Risk Cover

The parent company Lectra SA oversees the management of risks and the writing of insurance programs for the Group as a whole. Lectra SA's Legal Affairs Department formulates Group policy with respect to the evaluation of its risks and their coverage, and coordinates the administration of insurance contracts and claims with respect to legal liability, property damage, and damages and losses incurred during transportation.
The Group exercises its judgment when assessing risks incurred in the conduct of its business, the utility or otherwise of writing insurance cover with an outside insurer and the cost of the guarantees provided. It may therefore decide to review this policy at any time.
The Group works through international brokers whose network has the capacity to assist it throughout its different geographies. Insurance programs are written with reputable insurers of sufficient size and capacity to provide cover and administer claims in all countries. At regular intervals, when programs come due for renewal, the Group invites competing insurance companies to submit bids in order to secure the best possible terms and conditions.
The guarantees provided by these programs are calculated on the basis of estimated possible losses, the guarantee terms generally available on the market, notably for companies of comparable size and

characteristics to Lectra, and depending on insurance companies' proposals.
The Group has taken the following insurance coverage:
– legal liability, business continuity, post-delivery, and professional liability (Errors and Omissions in the United States),
– directors and officers liability,
– property damage,
– transported goods.
Lectra manages uncertainty with respect to general liability by means of a contractual policy that excludes its liability for indirect damage and limits its liability for direct damage to the extent allowed by applicable regulations. General liability cover is capped at €25 million per claim and per year.
Given the use made of the equipment commercialized by it, the Group is exposed to the risk of injury to its customers' employees while operating certain items of equipment supplied by it. It therefore takes all appropriate steps to ensure that these meet the strictest personnel safety standards—a major and constant concern of the Group; however, there is no such thing as zero risk. The Group's product liability insurance contract covers it against adverse monetary consequences arising from claims that could result from its sales of systems or provision of services.
The property damage program provides for payment of claims for material damage to buildings or physical assets in accordance with the declared value of each of its sites worldwide, which the Group reports annually. The program comprises additional guarantees to finance the continuity or reorganization of activity following a loss event. Special emphasis is placed on protecting the Bordeaux-Cestas (France) site, which houses research and development and production activities as well as critical services for the Group as a whole. The program notably comprises "business continuity" cover against financial loss in the event of a major accident affecting the Bordeaux-Cestas site and jeopardizing the continuity of all or part of the Group's business. This program is backed up by risk prevention measures at this site.

## 5. OFF-BALANCE SHEET ITEMS

### Off-Balance Sheet Commitments Relating to Company Scope and Acquisitions

Under the contracts to acquire Investronica and Lacent in 2004 and Humantec in 2005, the vendor shareholders gave the company representations and warranties regarding certain items in the statement of financial position and on all potential disputes arising out of events prior to the acquisition. These guarantees have expired, except for liabilities subject to compensation notified to the vendor shareholders prior to their expiration dates and those subject to a statute of limitations longer than the contractual expiration date stipulated in the contract and not time-barred at the date of this report.

### Off-Balance Sheet Commitments Relating to the Group Financing

The parent company, Lectra SA, provided a total of €2.3 million at December 31, 2011 (€2.6 million at December 31, 2010), in sureties to banks, mainly to guarantee loans made by the latter to the company's subsidiaries and in guarantees given to customers or to lessors. These sureties were previously authorized by the Board of Directors, as required under article L. 225-34 al. 4 of the French Commercial Code.
In addition, in December 2009 it gave a mortgage promise of €10 million on certain buildings at its Bordeaux-Cestas industrial site, to two of its banks in order to guarantee credit lines provided by the said banks. These credit facilities expired in June 2011 and the company did not request their renewal: the mortgage promise has consequently been canceled.
Exchange risk hedging instruments of balance sheet positions at December 31, 2011, were comprised of forward sales or purchases of foreign currencies (mainly U.S. dollars, Canadian dollars, Japanese yen, and British pounds) for a net total equivalent value (sales minus purchases) of €4.2 million (€6 million at December 31, 2010).
The company had hedged in 2007 its exposure to the interest-rate risk on part of the medium-term bank loan, converting the floating rate into a fixed rate by means of two interest-rate swaps. The interest-rate hedge was based on the best possible estimate of the

residual amount of the loan over the different periods hedged, having due regard to the contractual clauses. With effect from January 1, 2012, the face value of the residual interest-rate swaps was €13 million (€30 million at December 31, 2010). Face value will be reduced to €5 million from July 1, 2012, through December 31, 2012, the expiration date of the interest-rate swaps.

### Off-Balance Sheet Commitments Relating to Operating Activities

The only off-balance sheet commitments relating to operating activities concern normal office, motor vehicle, and office equipment leasing and rental contracts, which may be cancelled in accordance with contract terms. These commitments are discussed in the notes to the consolidated financial statements.

## 6. APPROPRIATION OF EARNINGS

In light of the company's excellent financial performance in 2010, the Board of Directors resumed its policy of dividend payments and declared a dividend of €0.18 per share in respect of fiscal 2010. This policy was suspended in 2008 in respect of fiscal 2007, as a result of the public stock buyback tender offer, and then in fiscal 2008 and 2009 due to the impact of the economic crisis on the company's earnings and net debt.
Confirming its confidence in the company's future prospects, despite new macroeconomic turbulence, the Board of Directors has proposed that a dividend of €0.22 per share be declared in respect of fiscal 2011, representing a 22% increase.
Subject to approval by the Shareholders' Meeting, the dividend will be made payable on May 10, 2012.
For the record, it is remined that according to the terms of the contract of the €48,000,000 medium-term bank loan contracted in 2007 to finance the public stock buyback tender offer, the company is under obligation to propose, each year during the Ordinary Shareholder's Meeting called to approve the previous fiscal year's financial statements, that the dividends to be declared be limited to 50% of the consolidated net income for the year elapsed, subject to certain conditions (if less than 50% of consolidated net income for a given year has been declared, the difference relative to 50% may be declared in subsequent years).

## 7. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

### Change in Share Capital

At December 31, 2011, share capital totaled €28,036,501.70, divided into 28,903,610 shares with a par value of €0.97. It was €27,644,043.58, divided into 28,499,014 shares, at December 31, 2010.
Share capital has increased by 404,596 shares since January 1, 2011, resulting from the exercise of stock options (€0.4 million par value together with total additional paid-in capital of €1.4 million).
On April 18, 2011, Société Financière de l'Echiquier (France), on behalf of investment funds managed by it, reported that it had fallen below the threshold of 10% of the company's voting rights, and that at that date it held 10.16% of the capital stock and 9.99% of the voting rights.
On June 8, 2011, it reported that it had increased its holding above the 10% threshold of voting rights, and that at that date it held 10.21% of the capital stock and 10.04% of the voting rights.
On February 17, 2012, Schroder Investment Management Ltd (UK), on behalf of investment funds managed by it, reported that it had increased its shareholding above the threshold of 5% of the company's capital stock, and above the threshold of 5% of voting rights on February 21, and that at that date it held 5.12% of the capital stock and 5.04 % of the voting rights.
No other crossing of statutory thresholds has been notified to the company since January 1, 2011.
At the date of publication of this report, to the company's knowledge, the main shareholders are:
– André Harari and Daniel Harari, who together hold 38.5% of the capital and 38% of the voting rights;
– Société Financière de l'Echiquier and Delta Lloyd Asset Management N.V. (Netherlands), each of which holds more than 10% (but less than 15%) of the capital and voting rights, on behalf of investment funds managed by them.
– Schroder Investment Management Ltd (UK), which holds 5% of the capital and voting rights, on behalf of investment funds managed by them.

## Treasury Shares

At December 31, 2011, the company held 0.5% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement managed by SG Securities (Société Générale Group). All of the information required under article L. 225-211 of the French Commercial Code concerning purchases and sales by the company of its own shares is presented in chapter 10 below.

## Granting of Stock Options—Potential Capital Stock

The Extraordinary General Shareholders Meeting of April 30, 2010, authorized the creation of a new stock option plan for a maximum of 1.5 million options for the same number of shares with a par value of €0.97, in accordance with the conditions described in the report of the Board of Directors to said meeting and in its first resolution, and automatically terminated the authority given to it by the Extraordinary Shareholders' Meeting of April 30, 2008. The exercise price may not be less than the average opening price of Lectra shares listed for the 20 stock market trading sessions preceding the options' grant date.

### *The 2011 Stock Option Plan*

On June 9, 2011, the Board of Directors granted a total of 247,267 stock options with an exercise price of €6.25 per share to 67 beneficiaries in respect of the actual performance of their 2010 objectives, in keeping with the undertaking given at the time of granting of the 2010 stock option plans.

On the same date, the Board of Directors also granted 188,460 options to 100 beneficiaries, at an exercise price of €6.25 per option, in respect of the 2011 stock option plan. Moreover, a maximum of 461,700 options have been earmarked for granting to 85 of these beneficiaries in respect of fulfillment of their 2011 objectives. The final number and exercise price of these options will be set by the Board of Directors at the time of granting in 2012. The exercise price may in no circumstances be less than €6.25.

All of the options granted concerned Group employees. The only two executive directors, André Harari and Daniel Harari, have held no stock options since 2000.

Each of these options entitles the holder to one share with a par value of €0.97.

These options vest over a period of four years from January 1, 2011, depending on the beneficiary's presence in the Group at the end of each annual period (the beneficiary being required to retain links with the company or with one of its affiliates in the form of an employment contract or as an executive director). Moreover, starting with the 2010 stock option plan, the Board of Directors decided to extend the four-year lock-up period applicable to French tax residents to all the beneficiaries of these plans, whether or not they are French tax residents.

The options are valid for a period of eight years from the date of granting.

### *Options Outstanding at December 31, 2011*

404,596 options were exercised in 2011. 119,456 options (including 1,968 options granted in 2011) have ceased to be valid, following the departure of their beneficiaries. At December 31, 2011, there were 157 employees that were beneficiaries of 2,829,602 stock options outstanding and 20 former employees still holding 51,717 options. Altogether, there are 177 beneficiaries of options (respectively 162, 17, and 179 at December 31, 2010).

At December 31, 2011, the maximum number of shares liable to comprise the capital stock, including all new shares that may be issued following the exercise of stock options outstanding and eligible for the subscription of new shares, is 31,784,929, consisting of:

- capital stock: 28,903,610 shares;
- stock options: 2,881,319 options.

Each stock option gives the beneficiary the right to acquire one new share with a par value of €0.97, at the exercise price decided by the Board of Directors on the date of granting (adjusted to take account of the public stock buyback tender offer of May 2007). If all of the options were exercised, regardless of whether these are fully vested or have not yet vested, and regardless of their exercise price relative to the market price of Lectra shares at December 31, 2011, the company's capital (at par value) would increase by a total of €2,794,879, associated with a total additional paid-in capital of €10,814,909.

No subsidiary of Lectra has opened a stock option or stock purchase plan.

The notes to the consolidated financial statements contain full details of the vesting conditions, exercise prices, and exercise dates and conditions of all outstanding stock options at December 31, 2011.
The Board of Directors' Special Report, as mandated under article L. 225-184 of the French Commercial Code and resulting from the May 15, 2001 New Economic Regulations Act, is provided in a separate document (available in French only).

### Absence of Bonus Shares

The company has not granted any bonus shares, and no plan for such shares has been submitted for approval to the Shareholders' Meeting.
Consequently, the Board of Directors has not prepared a special report on the granting of bonus shares as provided under article L. 225-197-4 of the French Commercial Code.

### Share Price Performance and Trading Volumes

In 2011, Lectra's share price recorded a low of €4.12 on January 3 and a high of €6.81 on April 7. According to Euronext statistics, the number of shares traded (6.3 million) was down 7%, and trading volumes (€35.9 million) rose more than 63% compared to 2010. After rising sharply in 2010 (+86%), following two years of substantial falls because of the financial crisis, the share price continued to increase, rising to its peak on April 7, representing a cumulative increase of 200% in fifteen months. During that period the number of shares traded (10.7 million) practically doubled, and the capital volume traded (€43.6 million) more than tripled. As from that date, and through to December 31, 2011, the share price fell 32% in increasingly narrower trading volumes (3.6 million shares traded in the first three months of 2011, versus 2.7 million in the last nine months), ending at €4.60. Consequently the year-on-year rise in the share price was limited to 10% (€4.19 at December 31, 2010).
Lectra's share price performance in 2011 deserves mention: during the same period, the CAC 40 and CAC Mid&Small indexes declined 17% and 21% respectively. This was even more pronounced over the two-year period 2010-2011, with Lectra's share price rising 104%, compared to a 20% and 7% drop in the CAC 40 and CAC Mid&Small indexes respectively.

NYSE Euronext has notified the company that Lectra's shares will be admitted to the Deferred Settlement Service (SRD "Long only") on February 24, 2012.

## 8. CORPORATE GOVERNANCE – CORPORATE SOCIAL RESPONSIBILITY

The company has taken strenuous measures over the past ten years to implement the requirements of corporate governance.

### Voting Rights

Following the decision of the Extraordinary General Meeting of May 3, 2001, shares whose registration was requested subsequent to May 15, 2001, and those purchased after that date, no longer carry double voting rights (barring special cases covered by the corresponding resolution passed by the said Extraordinary General Meeting). At their own initiative, André Harari and Daniel Harari cancelled in 2001 the double voting rights that were attached to the shares they held.
As a result of the foregoing, only 459,429 shares (representing 1.6% of the capital stock) carried double voting rights at December 31, 2011.

### Separation of the Functions of Chairman of the Board of Directors and Chief Executive Officer

In 2002, the Board of Directors separated the functions of Chairman of the Board of Directors and Chief Executive Officer, as permitted under the (French) May 15, 2001, Economic Regulations Act.
Furthermore, the (French) August 1, 2003, Financial Security Act introduced two new changes. First, the Chairman of the Board of Directors no longer represents the Board. Second, in a report attached to the Management Discussion and Analysis, he is henceforth required to present to the General Meeting of Shareholders a report on internal control procedures and risk management and on corporate governance established by the company.
Under this organization, and pursuant to French legislation, the Board of Directors is responsible for setting strategy and broad policy governing the company's activities, and for overseeing their implementation. The

Chairman organizes and directs its proceedings, being responsible for reporting to the General Meeting of Shareholders, and for overseeing the proper functioning of the company's management organization. The Chief Executive Officer is invested with full powers to act in the name of the company in all circumstances, and to represent it in its relations with third parties. He may be assisted by one or more Executive Vice Presidents. As resolved by the shareholders of Lectra, the Chief Executive Officer must be a member of the Board of Directors.

The Board of Directors believes this format for the management and administration of the company achieves a better balance and greater operational efficiency. It considers that the format is better suited to the size of the company, its worldwide structure, and its mode of operation and enables it to comply more fully with the requirements of corporate governance. The Chief Executive Officer is thus free to devote his full attention to the execution of the company's short-term goals and action plan—in the hostile macroeconomic climate born particularly of the global economic and financial crisis of 2008-2011 and as the company accelerates its transformation in order to address the new challenges facing it—while at the same pursuing its medium-term strategic plan. This format has amply demonstrated its relevance since the onset of the crisis and with the sharp rebound in its earnings in 2010 and then in 2011.

The Shareholders' Meeting of April 28, 2006, renewed the directorships of André Harari and Daniel Harari for a further period of six years, and the Board had re-elected André Harari to the position of Chairman of the Board of Directors and Daniel Harari to the position of Chief Executive Officer. Their term expires at the end of the Shareholders' Meeting called to approve the fiscal 2011 financial statements. The Board has not named an Executive Vice President.

The Board of Directors has proposed that they be re-elected, at the Ordinary Shareholders' Meeting of April 27, 2012, as directors for a period of fours years ending in 2016, at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2015. The duration of their appointments has been reduced from six to four years in order to comply with the recommendations of the AFEP-MEDEF Code. The Board of Directors will meet on April 27, 2012, after the close the Shareholders' Meeting, to re-elect André Harari to the Chairmanship of the Board and to reconfirm Daniel Harari as Chief Executive Officer for the duration of their directorships.

Daniel Harari chairs the Executive Committee, the other two members being Jérôme Viala, Chief Financial Officer, and Véronique Zoccoletto, Chief Human Capital and Information Officer.

*The New Composition of the Board of Directors*

The Board of Directors learned with great sadness of the passing of Louis Faurre, on October 26, 2011, and of Hervé Debache, on November 29, 2011, independent directors of the company.

The Directors will sorely miss their enormous contribution over many years to the work of the Board of Directors, their industrial and financial experience, and their well-informed advice.

The Board of Directors coopted Anne Binder on October 27 and Bernard Jourdan on December 21 as independent directors of the company, replacing Louis Faurre and Hervé Debache, respectively, for the remainder of their terms of office, i.e., until the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2013 (see biographies appended to this report).

As required by French law, these temporary appointments are submitted for ratification to the Shareholders' Meeting of April 27, 2012. If the shareholders decide to reduce the duration of directors' terms to four years, as proposed by the Board of directors, the respective terms of Anne Binder and Bernard Jourdan will expire immediately and shareholders will be invited to re-elect them for a period of four years at the Shareholders' Meeting.

If the shareholders approve the Board's proposals, the company will be compliant until 2014 with the French January 13, 2011 Act instituting new rules on the balance between men and women on Boards of Directors. The said 2011 Act sets a minimum proportion of 40% directors of each gender on companies' Board of Directors or Supervisory Board to be achieved by 2017, after a six-year transitional period. The required proportion for 2014 is 20%.

*Criteria Defining Board Members' Independence*

One of the criteria of independence in the Code of Corporate Governance published by the AFEP (*Association Française des Entreprises Privées*—Association of French Private Corporations) and the MEDEF (*Mouvement des Entreprises de France*—French Business Confederation) in December 2008 (referred to as "AFEP-MEDEF Code") concerns the duration of a director's term, specifying that a person who has been a director for more than 12 years can no longer be deemed independent. This was the case for Louis Faurre and Hervé Debache. All of the other criteria of independence, apart from the fact of having been directors for more than 12 years, were satisfied.

Louis Faurre and Hervé Debache were first elected to the Board by the Ordinary Shareholders' Meeting of May 22, 1996, and were re-elected by the Ordinary Shareholders' Meeting of May 3, 2002.

In furtherance of the company's strategic objectives, and having particular regard to the difficult macroeconomic conditions prevailing since 2008, the Board recommended to the Shareholders' Meeting of April 30, 2008, that it would be in the interests of the company and its shareholders to continue to benefit from their experience gained over these years and their deep knowledge of the company, given the long-term perspective in which the company invests and operates. The Board considered that a period in excess of twelve years as a director did not impair the independence of their judgment or their authority, but rather reinforced it. The shareholders concurred with these recommendations and decided to waive the twelve years service criterion.

Anne Binder and Bernard Jourdan fully satisfy the criteria of independence.

## Audit Committee, Compensation Committee and Strategic Committee

The Board of Directors established an Audit Committee and a Compensation Committee in 2001 and a Strategic Committee in 2004. Each of these committees is made up of three directors, two of them independent within the meaning of the rules laid down in the AFEP-MEDEF Code (with the aforementioned exception of the criterion of longevity for Louis Faurre and Hervé Debache). The Audit Committee was chaired by Hervé Debache, the Compensation Committee by Louis Faurre, and the Strategic Committee by André Harari, Chairman of the Board of Directors.

Anne Binder and Bernard Jourdan were also nominated to succeed Louis Faurre and Hervé Debache on the Strategic Committee (which André Harari will continue to chair), and on the Audit and Compensation Committees (for which Bernard Jourdan has been named Chairman). The membership, functions, and activities of these committees are discussed in the Report of the Chairman on internal control procedures and risk management and on corporate governance appended to this report.

## Executive Directors' Compensation

The MEDEF and AFEP published a set of recommendations on October 6, 2008, concerning the compensation of executive directors of companies whose shares are listed for trading on a regulated market, for the guidance of compensation committees (these recommendations now being consolidated into the AFEP-MEDEF Code).

These recommendations:

– spell out principles for setting the compensation of executive directors of listed companies;

– prohibit the simultaneous holding of a position as executive director and an employment contract;

– place a cap on one-time termination payments ("golden parachutes") to two years' compensation, and abolish the granting of indemnities in the event of voluntary resignation and in the event of failure by executive directors in their performance;

– strengthen the rules governing pension plans and place a cap on additional pension benefits;

– make stock option plans for executive directors conditional on the extension of such option plans to all employees or to the existence of mechanisms entitling all employees to a share of profits;

– terminate the granting of bonus shares unrelated to performance to executive directors; the latter should also purchase shares at market price additional to any performance-related shares granted to them;

– make compensation policies more transparent by means of a standardized disclosure format.

The French government further called on the Boards of Directors of the companies concerned to formally accept

these recommendations by the end of 2008 and to ensure that they are enforced rigorously.
In response to this demand, the company issued a statement on November 28, 2008, declaring that:
– it had already been in spontaneous compliance with these recommendations for many years with regard to André Harari and Daniel Harari in their respective capacities as Chairman of the Board of Directors and Chief Executive Officer. In particular, they have never combined their positions as executive directors with an employment contract, are not entitled to any component of compensation, indemnity, or benefit owed or liable to be owed to them in virtue of a termination or change of their functions, or to any additional defined benefit pension plan, stock options or bonus shares;
– it had decided to adopt the recommendations issued jointly by the AFEP and the MEDEF as the code of corporate governance to which the company shall voluntarily refer in matters of compensation of its executive directors, and to comply with its provisions or, should any of these provisions be deemed inappropriate with respect to the specific circumstances of the company, to explain the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code.

*Policy Governing the Compensation of Executive Directors*
This subject is discussed in detail in the Report of the Chairman on internal control procedures and risk management and on corporate governance appended to this report.
The sole executive directors *(dirigeants mandataires sociaux)* at present are André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer.
They are not the beneficiaries of any special arrangement or specific benefits concerning deferred compensation, severance compensation, or pension liabilities committing the company to pay any form of indemnity or benefit in the event of termination of their functions, or at the time of their retirement (they are not under any employment contract to the company), or more generally subsequent to the termination of their functions.
Compensation of executive directors of the company comprises a fixed portion and a variable portion. The company does not award them bonuses in any form.
Each year the Board of Directors determines the amount of target-based total compensation for the year. This was unchanged for the years 2005 to 2011. The fixed portion of compensation has been unchanged since 2003 and the variable portion of annual target-based compensation since 2005.
Conditional upon the fulfillment of annual targets, variable compensation is equal to 60% of total compensation for the Chairman of the Board of Directors and the Chief Executive Officer.
Until 2010, variable compensation was set in accordance with the following two quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets: (i) consolidated pre-tax profit excluding net financial expense and non-recurring items (which accounted for 67%) and (ii) consolidated free cash flow excluding net financial expense, non-recurring items, and income tax and after certain restatements (which accounted for 33%). It was equal to zero below a certain threshold, to 100% if annual targets were achieved, with a cap of 200% if annual targets were exceeded. Between these bounds, the amount was calculated on a straight-line basis.
Performance criteria were expanded by the Board of Directors in 2011 and now include four criteria reflecting the company's strategy of profitable activity and earnings growth, namely: (i) consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 50%); (ii) consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after restatement of certain items (accounting for 15%); (iii) a criterion measuring the contributive value of growth in sales activity (accounting for 25%); and (iv) a criterion measuring the contributive value of recurring contracts (accounting for 10%). Below certain thresholds it is equal to zero; if annual targets are met it is 100%; and it is capped at 200% if annual targets are exceeded. Between these thresholds, it is calculated on a linear basis.
Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent with the evaluation of executive directors' performance, the company's medium-term

strategy and the general macroeconomic conditions, and in particular those of the geographic markets and market sectors in which the company operates. After the close of each fiscal year, the Committee verifies the annual application of these rules and the final amount of variable compensation paid, on the basis of the audited financial statements.

These criteria and targets apply also to the two members of the Executive committee who are not executive directors, and to around fifteen managers of the parent company Lectra SA, the only differences concerning the portion relating to target-based variable compensations, which is set individually for each manager.

In 2011, altogether, the percentage obtained for the variable portion of compensation paid to the Chairman of the Board of Directors and to the Chief Executive Officer represented 107% of the amount tied to the fulfillment of annual targets (200% in 2010, each criterion having been capped at its maximum). Consequently the total actual compensation due in respect of 2011 was 104% of the target-based compensation (160% in 2010).

For 2012, the Board last year stated its intention to review their total compensation based on fulfillment of annual targets. In accordance with the proposal of the Chairman of the Board of Directors and the Chief Executive Officer to defer this review until 2013, having regard to the depressed macroeconomic environment and current uncertainties, the Board has decided to maintain this compensation unchanged for a further year (this decision could be reviewed in the course of the year if there is a return to more favorable conditions). The four performance criteria set in 2011 have been left in place for 2012, with the same relative weightings, with only the annual targets and corresponding thresholds being revised on the basis of Group targets for the fiscal year.

*Details of Individual Compensation Paid to Each Executive Director*

The table below presents the fixed and variable compensation (gross amounts before employee contribution deductions) assuming fulfillment of annual targets and the actual compensation effectively earned, in respect of each fiscal year:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| (in euros) | Compensation assuming fulfillment of annual targets | Actual compensation earned in respect of the fiscal year | % Actual compensation / Compensation assuming fulfillment of annual targets | Compensation assuming fulfillment of annual targets | Actual compensation earned in respect of the fiscal year | % Actual compensation / Compensation assuming fulfillment of annual targets |
| André Harari, Chairman of the Board of Directors | | | | | | |
| Fixed compensation | 190,000 | 190,000 | 100% | 190,000 | 190,000 | 100% |
| Variable compensation | 285,000 | 303,626 | 107% | 285,000 | 570,000 | 200% |
| **Total** | **475,000** | **493,626** | **104%** | **475,000** | **760,000** | **160%** |
| Daniel Harari, Chief Executive Officer | | | | | | |
| Fixed compensation | 190,000 | 190,000 | 100% | 190,000 | 190,000 | 100% |
| Variable compensation | 285,000 | 303,626 | 107% | 285,000 | 570,000 | 200% |
| **Total** | **475,000** | **493,626** | **104%** | **475,000** | **760,000** | **160%** |

The table below shows fixed and variable compensation (gross amounts before deduction of social security contributions), benefits in kind, and directors' fees due in respect of the fiscal year and amounts actually paid in the year.

| (in euros) | 2011 | | 2010 | |
|---|---|---|---|---|
| | Amounts earned in respect of the fiscal year[1] | Amounts paid in the year[1] | Amounts earned in respect of the fiscal year[1] | Amounts paid in the year[1] |
| André Harari, Chairman of the Board of Directors | | | | |
| Fixed compensation | 190,000 | 190,000 | 190,000 | 190,000 |
| Variable compensation | 303,626 | 570,000 | 570,000 | 188,100 |
| Directors' fees[2] | 25,000 | 25,000 | 25,000 | 25,000 |
| Benefits in kind[3] | 10,677 | 10,677 | 13,819 | 13,819 |
| **Total** | **529,303** | **795,677** | **798,819** | **416,919** |
| Daniel Harari, Chief Executive Officer | | | | |
| Fixed compensation | 190,000 | 190,000 | 190,000 | 190,000 |
| Variable compensation | 303,626 | 570,000 | 570,000 | 188,100 |
| Directors' fees[2] | 25,000 | 25,000 | 25,000 | 25,000 |
| Benefits in kind[3] | 19,564 | 19,564 | 19,380 | 19,380 |
| **Total** | **538,190** | **804,564** | **804,380** | **422,480** |

[1] Differences between amounts earned in respect of 2011 and 2010 and the amounts paid in 2011 and 2010 stem from leads and lags in the payment of this compensation. Allowance for variable compensation due in respect of a given fiscal year is made in the financial statements of the said fiscal year, the final amount being calculated after closure of the annual accounts and paid in the following fiscal year.
[2] Directors' fees in respect of 2011 shown here are subject to approval by the Shareholders' Meeting of April 27, 2012.
[3] The amounts shown for benefits in kind reflect the value for tax purposes of the use of company cars (€10,677 for André Harari and €13,382 for Daniel Harari in 2011) and payments to life insurance policies for Daniel Harari (€6,182 in 2011 and €6,158 in 2010); the life insurance policy on André Harari expired on April 1, 2009.

These amounts were borne and paid in full by the parent company, Lectra SA. Directors and officers received no compensation or special benefits from subsidiaries controlled by Lectra SA under article L. 233-16 of the French Commercial Code. (For the record, Lectra SA is not controlled by any other company.)

*Aggregate and Individual Attendance Fees Paid to Directors and Rules Governing their Distribution*

Directors' fees paid are detailed in the table below. The total figure of €100,000 approved by the General Meeting of Shareholders on April 29, 2011, in respect of 2010 was divided equally among the directors (€25,000, or one quarter of the total, for each director) as in previous years. This amount had been unchanged since fiscal 2006.

Directors' fees in respect of fiscal 2011 are presented subject to approval by the Shareholders' Meeting. They will be apportioned as follows, having regard to the passing of Louis Faurre and his replacement by Anne Binder (Bernard Jourdan having only been appointed on December 21):

| (in euros) | 2011 [1] | 2010 |
|---|---|---|
| André Harari, Chairman of the Board of Directors | 25,000 | 25,000 |
| Daniel Harari, Chief Executive Officer | 25,000 | 25,000 |
| Hervé Debache, Director | 25,000 | 25,000 |
| Louis Faurre, Director | 20,833 | 25,000 |
| Anne Binder, Director | 4,167 | – |
| Bernard Jourdan, Director | – | – |
| **Total** | **100,000** | **100,000** |

(1) Directors' fees shown in respect of 2011 are subject to approval by the Shareholders' meeting of April 27, 2012. The amounts indicated for André Harari and Daniel Harari are shown in the table above giving details of their total compensation.

*Policy Governing the Granting of Stock Options to all Beneficiaries and Specific Policy Governing the Granting of Stock Options to Executive Directors*

Stock options are reserved for persons within the company or an affiliated company that are linked by an employment contract and/or in their capacity as an executive director, and who are entitled by law to receive stock options, whose responsibilities, missions, and/or performance justify their being given a stake in the capital stock of the corporation by the granting of stock options. Additional disclosure on options granted is provided in chapter 7 of this report.

The only two executive directors, André Harari and Daniel Harari, hold no stock options. In conformity with French legislation, neither of them has been granted or has been entitled to receive stock options since they each individually passed the threshold of 10% ownership of capital stock, which occurred in 2000.

## Appointments and Other Directorships Held by Directors and Executive Directors in the Year under Review

André Harari holds no directorship or general management position in any company other than the parent company, Lectra SA.

Daniel Harari holds no directorship or general management position in any company other than the parent company Lectra SA and certain of its international subsidiaries. He is Chairman of the Board of Directors of Lectra Sistemas Española SA and of Lectra Italia SpA and President of Lectra Systems (Shanghai) Co. Ltd, all of which are direct subsidiaries of Lectra SA, located respectively in Spain, Italy, and China. He is also a member of the Board of Directors of Lectra USA Inc., a direct subsidiary of Lectra SA in the United States.

Anne Binder is currently a Director of Fastpaperflow (an office furniture company) and member of the strategic committee of AM France, which manages Alternativa (new European exchange market for small and medium-sized growth companies). She is also Vice-Chairman of the French National Chamber of Financial Expert Consultants, a Director of the INSEAD foundation, and trustee for the INSEAD alumni fund. These positions are exercised in France.

Bernard Jourdan holds no directorship outside of the company.

## Transactions Subject to Article L. 621-18-2 of the French Financial and Monetary Code and Article 223-22 of the General Regulation of the *Autorité des Marchés Financiers*

No trading in the shares of Lectra, as referred to in article L. 621-18-2 of the French Financial and Monetary Code and article 223-22 of the General Regulation of the AMF, was carried out in 2011 by the directors, except for the 200 shares acquired by Anne Binder following her nomination. (Under French law and the company's bylaws, each director must hold at least one share registered in his / her name in the company's records.)
Jérôme Viala and Véronique Zoccoletto, who are members of the Executive Committee, and who are the only senior executives (other than the directors) having the power to make management decisions regarding the company's development and strategy and with regular access to inside information concerning the company, exercised stock options expiring in 2011 and sold shares on the market in order to finance the exercise of these options as follows:

| | Date | Numbers | Price (€) | Value (€) |
|---|---|---|---|---|
| **Jérôme Viala** | | | | |
| Exercise of stock options | March 1st, 2011 | 18,583 | 4.75 | 88,269 |
| Exercise of stock options | March 2nd, 2011 | 37,517 | 4.75 | 178,206 |
| Sales | March 1st, 2011 | 18,583 | 5.65 | 104,994 |
| Sales | March 2nd, 2011 | 37,517 | 5.60 | 210,163 |
| **Véronique Zoccoletto** | | | | |
| Exercise of stock options | February 22, 2011 | 18,360 | 4.75 | 87,210 |
| Sales | February 22, 2011 | 18,360 | 5.35 | 98,226 |

## Compliance with the Transparency Directive of the *Autorité des Marchés Financiers* – Regulated Disclosure

The company complies with the new regulations regarding the financial disclosure obligations of companies listed on Euronext, which took effect on January 20, 2007. These obligations are spelled out in Title 2, Book II, of the General Regulation of the AMF concerning periodic and continuous disclosure.
The General Regulation defines regulated disclosure in the form of a list of reports and information to be disclosed by companies, together with rules governing its dissemination and storage. Lectra has recourse to the services of Thomson Reuters, a professional information provider approved by the AMF that satisfies the criteria laid down in the General Regulation. At the same time as being published, the regulated information is filed with the AMF and published on the company's website.

*Fees Paid to Group Auditors and Companies in Their Network*

The Lectra Group booked, in 2011, a total of €777,000 in fees paid for the audit of the financial statements of all Group companies, including €427,000 to PricewaterhouseCoopers, €244,000 to KPMG, and €106,000 to other auditors, excluding other services provided. The corresponding charge recognized in 2010 was €750,000.

Total fees paid to the Group statutory auditors amounted to €774,000, including €526,000 to PricewaterhouseCoopers and €248,000 to KPMG:

| | PWC | | | | KPMG | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | % | | Amount | | % | |
| (In thousands of euros) | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Audit** | | | | | | | | |
| Statutory audits, certification and examination of individuals and consolidated financial statements | | | | | | | | |
| Issuer (Lectra SA) | 157 | 142 | 30% | 26% | 137 | 124 | 55% | 58% |
| Fully-consolidated subsidiaries | 270 | 307 | 51% | 56% | 107 | 87 | 43% | 41% |
| Others services directly related to the Auditors' engagement | | | | | | | | |
| Issuer (Lectra SA) | – | – | – | – | – | – | – | – |
| Fully-consolidated subsidiaries | – | – | – | – | – | – | – | – |
| Sub-total | 427 | 449 | 81% | 82% | 244 | 211 | 98% | 99% |
| Other services to consolidated entities | | | | | | | | |
| Legal, tax and social reviews | 99 | 96 | 19% | 18% | 4 | 3 | 2% | 1% |
| Sub-total | 99 | 96 | 19% | 18% | 4 | 3 | 2% | 1% |
| **Total** | **526** | **545** | **100%** | **100%** | **248** | **214** | **100%** | **100%** |

*Appointment of Statutory Auditors and Alternate Statutory Auditors*

The appointments of PricewaterhouseCoopers Audit and KPMG as Statutory Auditors were renewed by the Shareholders' Meeting of April 30, 2008, for a period of six fiscal years expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for fiscal 2013.

Further, Franck Cournut was reappointed as alternate Statutory Auditor by the Ordinary Shareholders' Meeting of April 30, 2008, and Etienne Boris was appointed alternate Statutory Auditor. These two appointments will run for a period of six years expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for fiscal 2013.

## Information Concerning Items Covered by Article L. 225-100-3 of the French Commercial Code as Amended by the March 31, 2006, Public Tender Offers Act

Article L. 225-100-3 requires companies whose securities are eligible for trading on a regulated market to disclose and where applicable explain the following items if they are liable to be material in the event of a public tender offer:

– the structure of the company's capital stock;

– any restrictions contained in the by-laws on the exercise of voting rights and on the transfer of shares, or clauses contained in agreements notified to the company in application of article L. 233-11 of the French Commercial Code;

– direct or indirect shareholdings in the capital of the company known to it in virtue of articles L. 233-7 and L. 233-12;

– the list of holders of all securities carrying special control rights and the description thereof;
– control mechanisms provided for in the event of an employee share ownership system, when the employees do not exercise controlling rights;
– agreements between shareholders that are known to the company and that may entail restrictions on the transfer of shares and on the exercise of voting rights;
– the rules governing the appointment and replacement of members of the Board of Directors and amendments to the company by-laws;
– the powers of the Board of Directors and in particular concerning the issuance or buyback of shares;
– agreements entered into by the company that will be modified or terminated in the event of change of company control;
– agreements providing for the payment of indemnities to members of the Board of Directors or employees in the event of resignation or dismissal without genuine and serious cause, or if their employment is terminated by reason of a public tender offer.

Under present conditions, none of these items is liable to be of consequence in the event of a public tender offer for the shares of Lectra SA, subject to the stipulations contained in the contract governing the €48 million mid-term loan granted to the company by Natixis and Société Générale on June 8, 2007, to finance the public stock buyback tender offer—the principal amount remaining due as at December 31, 2011, was €15.9 million. This contract entitles each of the lenders to demand early repayment of the balance of the loan outstanding in the event that one or more of the company's shareholders, acting in concert—with the exception of André Harari and/or Daniel Harari—came to hold more than 50% of the capital stock and/or voting rights.

## Social Policy

The Group's ambition is to develop and consolidate its position as world leader. Thanks to its proximity to its customers, it forges long-term relationships with them and supports them in their development, through its integrated solutions combining software with CAD/CAM hardware and associated services to address their strategic challenges, by investing continuously in innovation and new technologies, and in the development of its human capital.

Its business worldwide depends primarily on the value of its senior executives, the expertise of its personnel, and its international marketing and services network, both global and local.

The Group has consistently set a high priority on preserving its human resources and talent. It has kept a tight grip on its recruitment plan, with a focus on marketing, sales, and sales support profiles. Emphasis is also placed on monitoring individual performance. On this score, the Group closely reviews under-performing staff, providing suitably tailored support to help them progress and improve their results.

The company's strategy of radical transformation, embarked on in 2005, was overhauled at the end of 2009 in order to prepare for the post-crisis period. Its aim is to adapt the Group to the deep changes taking place in its geographic markets and market sectors; to strengthen its competitiveness and world leadership; to concentrate its resources on the most promising geographic markets and market sectors so as to fulfill its development potential; to reinforce and develop its marketing and sales organization; and, lastly, to bolster the company's innovative capabilities and reinforce its research and development teams.

These actions are undertaken in parallel with a constant search for individual and collective performance. Continuous improvement and optimization of all functions, including administrative and financial information, and processes, remains a permanent objective of the company. In support of this strategy, the Group is pursuing a robust policy of developing its human resources.

The first major axis is to recruit and develop the best skills, at headquarters and in our international subsidiaries, and to continue to invest significantly in skills training and in developing the capabilities of managers and their teams, nurturing and reinforcing their expertise and performance.

The second axis is to conduct the projects necessary to simplify the organization with the help of the teams themselves, new working methods, and high-performance internal information systems.

### *Diversity and Ethical Values*

Uncompromising ethical rigor in the conduct of its business activities, and respect for the individual, are fundamental values of Lectra's philosophy.

Lectra rejects all notion or practice of discrimination between people, notably on grounds of sex, age, handicap, ethnic origin, social origin, or nationality. This principle ensures fair treatment in terms of equal career opportunities and equal pay.

The Group's economic headcount at December 31, 2011, was 1,338 worldwide. Its customer relations teams (marketing, sales and services activities) account for 50% of the workforce; research and development 16%; production and logistics 12%; and administration and finance, human capital management, and information systems 22%.

Group policy is designed to advance the careers of its best-performing employees and support all its employees in enriching their knowledge and know-how.

The Group attaches particular importance to internal mobility for its employees. 98% of employees are on open-ended contracts. Fixed-term contracts apply mainly to persons hired to replace staff on maternity or long-term leave.

As a transnational corporation, Lectra operates in a multicultural environment and shares its know-how with its customers in more than 100 countries via its own worldwide sales and services network, supplemented by agents or distributors in certain countries. Its workforce is spread across 31 subsidiaries, with more than 50 nationalities represented. This diversity is a major source of wealth and indisputably a key competitive advantage for the Group.

Men represent 65% of the Group's total headcount and form the majority of staff in its sales, technical, and technology teams. Conversely, although women represent 35% of the total, they are in the majority in other areas such as marketing, administration and finance, and human resources. Women accounted for 48% of recruitments, on average, in the period 2009-2011.

*Training and Integration*

The expertise of its employees is one of the Group's key strengths. Hiring people with a wide diversity of profiles and skills development has been a priority, the aim being to match the skills and competencies of its teams as closely as possible to the strategy of the Group.

31% of the 1,338 people (full-time equivalent) on the payroll at December 31, 2011, have joined the company in the past five years, 18% of them in the last 36 months.

The creation of Lectra Academy, the Group's worldwide in-house training center, in Bordeaux-Cestas, in 2005, was one of a series of major initiatives leading to the formulation and implementation of a far-reaching plan. The five key challenges of this program are: to adapt and upgrade business-related professional skills and know-how; to bolster the Group's attractiveness to new job applicants around the world; to transmit the strong corporate culture in all its entities; to identify, develop, and retain talent; and to manage careers effectively.

Employees worldwide enjoy access to a broad array of training programs. The Lectra Academy's team is fully dedicated to this task and works directly with the managers of each department and subsidiary, preparing and implementing training plans geared to the specific needs of the company's different businesses as well as to local circumstances. Group experts and outside instructors organize and run seminars in each of the company's areas of competence.

In 2011, the Group invested €3.1 million in training, representing 4.3% of total staff costs (versus €2.0 million and 2.9% in 2010). About 86% of employees attended at least one training program (67% in 2010).

This significant increase was due in part to the deployment, starting in July 2011, of an extensive sales training program for all Group sales, marketing, and consulting teams. The Group also continued to provide technical training for its other teams—R&D especially—in new technologies and methodologies, in Lectra's solutions offer, and in its customers' businesses.

*Subcontractors*

The Group subcontracts the production of sub-assemblies of the CAD/CAM equipment it markets to a network of regional, national, and foreign firms (most of them located in European Union countries). These sub-assemblies are then assembled and tested at the Bordeaux-Cestas industrial facilities.

Other subcontracted activities are mainly confined to cleaning and maintenance of premises and green areas, company cafeterias, and the packaging and transportation of equipment shipped throughout the world.

The Group is not aware of any violation by its subcontractors and foreign subsidiaries of the fundamental provisions of the International Labor Organization (ILO).

### Relations Between the Group and Educational Institutions

Lectra takes the view that, as a world leader, it has a responsibility to actively help students in their personal development and preparation for their careers, especially in the fashion industries. For the past several years the company and its foreign subsidiaries have forged partnerships with more than 875 educational institutions based in 60 countries.

These partners mainly comprise:

- fashion schools and universities;
- schools of engineering, especially those specializing in textiles and computer sciences;
- fashion trade associations.

The company has intensified programs and its relations with the educational community since 2007. Its partnership policy has proved highly successful, providing increased support for tomorrow's professionals by assisting students throughout the duration of their studies.

Three levels of partnership allow the Group to adapt the form and content of its actions to the specific characteristics of each institution (e.g. to the nature of their programs and the students' course requirements). Lectra offers these students access to its latest technologies and to the full extent of its expertise, so that instructors can incorporate these into their programs. All these partnerships are part of a joint and customized approach, forming part of a long-term reciprocal commitment between the institution and Lectra.

It has signed 32 "Privilege" (the highest level) partnerships with prestigious schools and universities in Benelux, Brazil, Canada, China, France, Germany, Italy, Switzerland, the United Kingdom, and the United States. Lectra especially offers students opportunities to gain practical experience with technological innovations and with real world business activities through seminars in which they benefit from the experience of the Group's best experts. Lectra also provides them with an exceptional medium and showcase for their final course projects, notably thanks to its international network and Internet website, which includes a special webpage reserved just for them. Finally, Lectra offers internships and actively recruits students graduating from these institutions.

For the fourth consecutive year, after Shanghai in 2010, Lectra invited the representatives of its "Privilege" partners to a congress at the Group's technology campus at Bordeaux-Cestas in November 2011. The event attracted 40 professors, department heads, and head teachers or directors from 22 fashion schools and colleges.

Additionally, Lectra has become involved as a founding partner of the Institute for Innovation and Competitiveness, created and supported by ESCP Europe and the Europe+ Foundation. The new institute was inaugurated on January 11, 2011, in the presence of Christine Lagarde, the French Minister of Economic Affairs, Finance, and Industry. This veritable think tank aims to promote a broader vision of innovation and serve as a nexus for exchanges of views on innovation with public authorities at both the French and European levels.

## 9. RESEARCH AND DEVELOPMENT

Despite the economic crisis, the Group continued to invest significantly in research and development.

Its R&D teams comprise 218 persons, including 202 in France, 14 in Spain, and 2 in Germany. Consisting mainly of trained engineers, they span a wide array of specialties across a broad spectrum from software development and Internet services through electronics, mechanical engineering, as well as expert knowledge of the Group's customers' businesses.

The Group also has recourse to specialized subcontractors, accounting for a small proportion of its total R&D spending.

All R&D expenditures are fully expensed in the year and booked in fixed overhead costs. Before deduction of the (French) research tax credit and grants relating to specific programs, these expenditures totaled €18.2 million in 2011, or 8.9% of revenues (€16.1 million and 8.5% in 2010). Net R&D expense, after deducting the research tax credit and grants, amounted to €11.5 million (€9.5 million in 2010).

These investments (of nearly €165 million over the past ten years, reflecting a technology heritage valued at zero in the statement of financial position) have enabled the company to maintain and even strengthen its technology lead over its competitors. In 2006, it introduced its PLM software offer specifically dedicated to the emerging

fashion collection development cycle market; further major versions have been developed since then. In early 2007, it introduced its new technology offer, which comprised in particular the new generation of *Vector* cutting systems, whose performance remains unmatched to this day. In 2011, Lectra launched its new line of automated leather cutting systems for the automotive sector (specific versions aimed at the furniture and fashion sectors will be launched in the first quarter of 2012), together with new versions of its software, including 3D for the fashion sector.

## 10. AUTHORIZATION GIVEN TO THE COMPANY TO ACQUIRE AND SELL ITS OWN SHARES

The Shareholders' Meeting of April 29, 2011, renewed the program existing since the Shareholders' Meeting of April 30, 2010, and granted authority to the company to trade in its own shares for a period of eighteen months from the date of the said Meeting. The sole purpose of this program is to maintain a liquid market in the company's shares by means of a Liquidity Agreement with an investment services provider, in compliance with the code of conduct of the *Association Française des Entreprises d'Investissement* (AFEI, French association of investment companies) or any other code of conduct recognized by the *Autorité des Marchés Financiers*.

### Share Cancelations

The company is not authorized to cancel shares. The authority given by the Shareholders' Meeting of April 30, 2007, lapsed on April 30, 2009 and has not been renewed at the recommendation of the Board of Directors.

### Treasury Shares

The company has not made any transactions to purchase and sell company shares on its own account. The authority given under the program authorized by the Shareholders' Meeting of April 30, 2008, which expired on April 30, 2009, has not been renewed at the recommendation of the Board of Directors.

### Liquidity Agreement

Under the Liquidity Agreement administered by SG Securities (Paris), from January 1 to December 31, 2011, the company purchased 185,256 shares and sold 195,142 shares at an average price of €5.49 and €5.37 respectively.
Consequently, at December 31, 2011, the company held 133,854 Lectra shares (or 0.5% of share capital), at a par value of €0.97, with an average purchase price of €5.39, entirely under the Liquidity Agreement.
Under the Liquidity Agreement, an additional amount of €1 million in cash, but not exceeding the equivalent of 150,000 shares, could be placed by the company at the disposal of SG Securities, further to the 430,260 shares and €176,000 in cash (making a total equivalent value of €1.9 million) placed at its disposal at the date of signature of the agreement.

### Renewal of the Share Buyback Program

The Board of Directors has proposed to the General Meeting of Shareholders of April 27, 2012, to renew the share buyback program pursuant to Article L. 225-209 of the French Commercial Code, for a period of eighteen months from the date of the said meeting.
As in the case of previous programs since 2008, the new program's objective is confined to maintaining a liquid market in Lectra shares. The program will be carried out by an investment services provider acting under a liquidity agreement compliant with the Charter of Ethics established by the AFEI or any other code of conduct approved by the AMF.
Concerning the new share buyback program, the company will act in conformity with the requirements of French law with regard to the maintenance of sufficient retained earnings and the elimination of voting rights attached to treasury shares.
As previously, this program will concern a variable number of shares such that the company does not come to hold a number of treasury shares exceeding 10% of the capital stock adjusted for transactions affecting it subsequent to the Shareholders' Meeting of April 27, 2012, where appropriate.
The shares may be repurchased in all or in part by trading in the market or over-the-counter, including by block purchases or sales, by recourse to warrants or to securities carrying a right to shares in the company in accordance with the terms established by the AMF, and at

such times as may be decided by the Board of Directors or any person acting on the authority of the Board.
The Board of Directors will provide shareholders with the information required in articles L. 225-211 of the French Commercial Code, in its reports to the Annual Meeting of Shareholders.
The Board of Directors has proposed the following terms:
– maximum purchase price: €12 per share;
– maximum amount to be utilized in the stock buyback program: €2.5 million.
If the shareholders approve this resolution, the new program will replace the one authorized by the General Meeting of Shareholders of April 27, 2012. It will have a duration of 18 months from the date of the Annual Meeting of Shareholders, e.g., until October 27, 2013.
In accordance with the General Regulation of the AMF, the company will make this program description available (in French only) to shareholders on its website (lectra.com) and on that of the AMF (amf-france.org). A printed copy can be obtained free of charge (on application to Lectra, Investor Relations department, 16-18 rue Chalgrin, 75016 Paris-France).

## 11. POST-CLOSING EVENTS

No significant event has occurred since December 31, 2011.

## 12. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 27, 2012.
First, second, and third quarter earnings for 2012 will be published on April 26, July 26, and October 25, 2012, respectively, after the close of trading on Euronext. Full-year earnings for 2012 will be published on February 12, 2013.

## 13. REPORT ON AUTHORITY TO INCREASE THE CAPITAL

Article L. 225-100 of the French Commercial Code, as amended by the Executive Order *(Ordonnance)* of June 24, 2004, requires that the Management Discussion and Analysis comprises a table summarizing the authorities and powers granted to the Board of Directors by the Shareholders' Meeting, with respect to capital increases in application of articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code, and their utilization by the Board of Directors in the course of the year. The table is attached to this report.
The Extraordinary Shareholders' Meeting of April 30, 2010, authorized the issuance of shares within the framework of a stock option plan for a period of thirty-eight months expiring on June 30, 2013 (see chapter 7). This authority automatically terminated the authority to issue shares within the framework of a stock option plan, decided by the Extraordinary Shareholders' Meeting of April 30, 2008.

## 14. BUSINESS TRENDS AND OUTLOOK

The year 2011 ended with the return to a situation of economic, financial, and monetary crisis, of unknown scale and duration, in addition to downward revisions of growth forecasts for 2012 and 2013 for most developed and emerging countries. Upcoming elections in several countries could further accentuate uncertainties. Corporations are once again at risk of facing restrictions on bank loans and greater difficulty in financing capital expenditures. Even more than deteriorating macroeconomic conditions, the alternation of good news and bad news, the lack of visibility, and the growing concerns of companies so long as there are still no signs of a sustainable improvement in the economy will weigh heavily on those companies' investment decisions.
The clear and ambitious 2010-2012 strategic roadmap, formulated at the end of 2009, amply demonstrated its pertinence in 2010 and in 2011. Today, its overriding objectives remain unchanged: accentuate Lectra's technological leadership and the high added value of its products and services offer across all markets; strengthen its competitive position and its long-term relationships with customers; accelerate organic growth once the crisis has ended; boost profitability by regularly increasing operating margin; and generate free cash flow in excess of net income (assuming that the French research tax credit recognized in the year is received or used) serving to finance its future growth from its own cash.
Moreover, the decision made in 2005, after deep consideration, to maintain Lectra's R&D and production in France has enabled it to meet the three challenges

it faced: compete with the low-cost products of its international competitors that had relocated to China and those of its Asian competitors; increase its competitiveness even in the event of a persistently weak dollar/euro parity; and boost its margins. This decision has also enabled Lectra to protect its industrial property, an achievement which is attributable to innovation.
While the increase of wages and social charges in China, as well as the inflation and appreciation of the yuan, have since negatively impacted production costs, the strong increase of Lectra's gross profit margins on each product line, in particular CAD/CAM equipment, has raised the aggregate rate to its historical high, confirming again in 2011 its competitiveness and high value added of its offer.

## The Company has Decided to Focus on its Long-Term Strategy

The company enters 2012—another year of economic, financial, and monetary crisis which, experts agree, will be not only difficult but also unpredictable—with totally different financial and operating fundamentals compared to the eve of 2008-2009.
Its historic financial performance in 2010 and 2011 has again demonstrated its resilience. Its balance sheet has been radically transformed and is now very strong, thereby eliminating any liquidity risk for the coming years: the net financial debt of €56.4 million at December 31, 2008, has been erased, replaced by €8.6 million in net cash, and shareholders' equity has increased by €16.7 million to €58.7 million.
In addition, the company has continued to invest in R&D, spending a cumulative €68.6 million during the crisis period 2008-2011, fully expensed, and has renewed and expanded its technology offer. Finally, despite even tougher competition as a result of the economic climate, Lectra has reinforced its margins on all its product lines, raising its operating margin from 5% in 2007 to 14% in 2011.
Should the euro's weakness against the dollar continue, the parity having started the year below the $1.30/€1 mark, this would be a beneficial factor in the company's competitiveness.
On the other hand, the sharp drop in sales activity in the closing months of 2011 penalized the order backlog at January 1, starting the year €8 million below the prior year's figure. Orders could remain weak for all or part of the year, until business investments pick up again.
Given this lack of visibility, caution and vigilance must be maintained.
In this context, the company has decided to give precedence to its long-term strategy, rather than to profitability in 2012—which will nonetheless remain higher than its pre-crisis level. Its first established priority is to bolster its roadmap to accelerate its growth and its capacity to create value for its customers—its primary objective—and hence also for its teams and shareholders.
Innovation, human capital, and proximity to customers continue to drive Lectra's leadership. That is why strengthening its sales and marketing teams and pursuing its steadfast investment in R&D constitute the keys to accelerating the company's full-scale transformation plan over the next 24 months. This will enable the company, as soon as the economic crisis ends, to fully realize its growth potential in its most promising geographic markets and market sectors.
Considering the drastic cuts already made over the last few years, these expenditures to build for the future will be only partially offset by further reductions of certain operating costs. This plan will therefore result in a more significant rise in fixed overhead costs than in 2011, although they will continue to be very tightly controlled.

## 2012 Outlook

Given the uncertain state of the economy, the company has formulated two revenue and income hypotheses.
Key financial features of the 2012 plan are (like-for-like variations):
– keeping gross profit margins on the different product lines at their 2011 levels, or slightly increasing them;
– a small increase of around 1% to 3% in recurring revenues. Recurring contracts are expected to remain stable or to grow slightly. Sales of spare parts and consumables should increase between 2 and 5%, given the increase in the installed base and the activity and output at customer firms;
– fixed overhead costs of around €112.5 million, up €8.9 million (+ 8.6%) relative to 2011, half of this increase being due to the acceleration of the company's transformation plan, if it proceeds as intended;

– keeping the security ratio (i.e. the percentage of annual fixed overhead costs covered by the gross profit generated by recurring revenues) close to 78%.

As in previous years, the main uncertainty concerns the level of revenues from new systems sales. Regardless of the hypotheses used regarding orders for new systems booked, revenues would continue to be affected by the low order backlog at the beginning of the year and would be lower than the total figure for corresponding orders in 2012.

Given the level of the order backlog at January 1, Q1 2012 revenues and income from operations are expected to be down relative to Q1 2011, at a level of approximately €47 million and €3 million respectively.

Assuming economic conditions in the first half of the year remain as deteriorated as they were in Q4 2011 and then return to their level of the first half of 2011, orders for new systems in fiscal 2012 could rise 4% relative to 2011, with revenues from new systems sales declining approximately 9%, resulting in total revenues of around €206 million (stable relative to 2011 at actual exchange rates, and down 3% like-for-like). Income from operations before non-recurring items would come to around €21 million (– 34%), thereby generating an operating margin before non-recurring items of around 10% and a net income of around €14 million (– 27% at actual exchange rates).

The company's ambition is to achieve higher growth. The leverage effect remains significant: for every €1 million in revenues from new systems sales added to or subtracted from the corresponding figure of the central scenario, the resulting income from operations would vary accordingly by approximately €0.45 million.

Should the economy remain as weak throughout the year as it was in Q4 2011, the action plan would be slowed, and certain operating costs would be cut more drastically if required by the level of orders. Orders for new systems could fall 17% in that case, with corresponding revenues falling around 24%. This would result in total revenues of approximately €190 million, equivalent to their 2010 level at actual exchange rates. Income from operations before non-recurring items would come to around €15 million, thereby generating an operating margin before non-recurring items of approximately 8%, and net income of approximately €10 million—higher financial performance than in pre-crisis years.

Under both these hypotheses, free cash flow should exceed net income less the 2012 (French) research tax credit (around €5.7 million), capital expenditures being limited to around €5–€6 million (and R&D expenditures being expensed in full).

These figures are based on an average parity of $1.30/€1 in 2012.

An average rise in the dollar of $0.05 against the euro would mechanically increase revenues by around €2.5 million and income from operations by around €1.3 million. Conversely, a fall in the dollar of $0.05 would decrease revenues and income from operations by the same amounts. On January 23, 2012, the company hedged its U.S. dollar exposure for the first quarter of 2012 by means of forward sales at a parity of $1.30/€1. It has not hedged its exposure beyond that time.

## The Company is Confident in its Medium-Term Growth Prospects

Net income and free cash flow expected for 2012 will continue to bolster the company's cash position and its balance sheet, which would be further reinforced by the receipt of the €10.9 million outstanding in respect of the damages awarded to the company by the international arbitral tribunal. Lectra's current objective is to continue its dividend payment policy and to preserve its cash in order to finance targeted acquisitions in the future, should such opportunities arise, with organic growth financed from its own cash thanks to the company's business model.

As the very strong rebound in orders in 2010 and in the first half of 2011 showed, once the crisis is definitely over, companies in the different geographic markets and market sectors served by the company will need to accelerate their investment plans or make good the investments they have either frozen or postponed over several years and to acquire the technologies necessary to boost their competitiveness. The crisis and its further developments in 2012 have amplified the challenges they face.

Bolstered by its performance in 2011 and with the pertinence of its 2012 action plan, the company is confident in the strength of its business model and its growth prospects for the medium term.

The Board of Directors
February 23, 2012

## SCHEDULE OF AUTHORITY TO INCREASE THE CAPITAL AT THE CLOSE OF FISCAL YEAR 2011

(note to chapter 13 of the Management Discussion)

| Type of issue | Authorization date | Maturity | Term | Maximum amount | Utilization 2011 |
|---|---|---|---|---|---|
| Stock options [1] | April 30, 2010 | June 30, 2013 | 38 months | Capital: €1,455,000 | Amount utilized: €852,227 |
| **Total authorized, non expired and unutilized at December 31, 2011** | | | | **€602.773** | |

(1) The General Shareholders Meeting of April 30,2010 authorized the creation of a new stock option plan for a maximum of 1,500,000 options with a par value of €0.97. The maximum amount and amounts utilized at December 31, 2011 are shown with the par value of the shares; 878,585 options had been utilized at December 31, 2011, and 621,415 remained at the Board's disposal (see note 10.5 to the consolidated financial statements)

"We certify that, to our knowledge, the financial statements have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and results of the company and of its consolidated companies. We further certify that the management discussion and analysis presents a true and fair view of the operations, results, and financial condition of the parent company and consolidated companies, together with a description of the main risks and uncertainties faced by the company."

Paris, February 23, 2012

Daniel Harari
Chief Executive Officer

Jérôme Viala
Chief Financial Officer

### Anne Binder

Anne Binder, 61, is Director of Lectra since October 27, 2011. Anne Binder is currently a consultant in financial strategy and an independent Director for essentially non-publicly traded companies (luxury goods, electronics, telecommunications, etc). From 1993 to 1996 she was the Executive Manager in charge of the development in France for GE Capital (international financial services group) and Director of its French subsidiary. From 1990 to 1993, she was the Chief Executive Officer of the holding company and Deputy Chief Executive Officer of Euris investment fund (investments in industrial companies). From 1983 to 1990, she participated in the creation and was General Manager of the French Pallas group (bank and investment). Prior to that, she was an associate manager for Générale Occidentale (bank and industrial holding) from 1978 to 1982. At the beginning of her career, she was a consultant at Boston Consulting Group and then associate manager at Lazard Frères Bank in Paris.
Anne Binder is a Director of Fastpaperflow (an office furniture company) and member of the strategic committee of AM France, which manages Alternativa (new European exchange market for small and medium-sized growth companies). She is also Vice-Chairman of the French National Chamber of Financial Expert Consultants, a Director of the INSEAD foundation, and trustee for the INSEAD alumni fund.
Anne Binder graduated from the Institut d'Etudes Politiques of Paris. She also has a BA from the Paris faculty of law and a Master in Business Administration from INSEAD in Fontainebleau, France.

### Bernard Jourdan

Bernard Jourdan, 67, is Director of Lectra since December 21, 2011. Bernard Jourdan is currently an independent strategy and management consultant. From 1995 to 2005, he was member of the Board of Directors and Executive Vice President of the SPIE Group, a European leader in electrical and mechanical engineering and heating, ventilation and air conditioning services, energy, and communication systems.
From 1990 to 1995 he was Executive Vice President of Operations of the French subsidiary of the Schindler Group, a leading global provider of elevators, escalators, and related services. From 1978 to 1990, he held various positions at Compagnie Générale des Eaux (currently Veolia Environment) group, a world leader in water treatment, environmental services, and energy services; he was, in particular, member of the Board of Directors and Chief Executive Officer of subsidiaries of the group in France from 1987 to 1990 and Executive Vice President and Chief Operating Officer of the U.S. division from 1981 to 1986. In his early career he was successively a consultant at Arthur Andersen Paris, associate manager at First National Bank of Chicago, and project manager at the Institut de Développement Industriel (IDI) in Paris.
Bernard Jourdan holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus of Ecole Centrale de Paris (Engineering), and obtained an BA in economics from the University of Paris Assas and an MS (DECS) in accounting from the University of Paris.

# REPORT OF THE CHAIRMAN ON INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT AND ON CORPORATE GOVERNANCE

To the Shareholders,

The French Financial Security Act of August 1, 2003, modifying the obligations of French *sociétés anonymes*, notably amended article L. 225-37 of the French Commercial Code. This requires the Chairman of the Board of Directors of a société anonyme to append to the Management Discussion and Analysis of Financial Condition and Results of Operations a report giving details of the manner in which the Board's proceedings are prepared and organized, and on the company's internal control procedures.

Under the amended legislation, the report of the Chairman of the Board of Directors on conditions governing the preparation and organization of board proceedings and on internal control procedures is also required to describe the principles and rules established by the Board regarding compensation and benefits of all kind of the company's executive directors *(mandataires sociaux)*.

The French law no. 2008-649 of July 3, 2008, which amends various aspects of French company law in order to comply with European Union law has amended the terms of article L. 225-37 of the French Commercial Code. In particular, this requires that, when a company voluntarily refers to a code of corporate governance framed by representative organizations of corporations, the report of the Chairman on internal control procedures and risk management and on corporate governance must identify the provisions it has chosen not to apply and the reasons for doing so. Alternatively, if the company does not refer to any such code of corporate governance, the report must state which rules it has adopted in addition to those required by law and explain why the company has decided not to apply any of the provisions of this code of corporate governance.

Furthermore, the present report is prepared in accordance with the model published specifically by the *Autorité des Marchés Financiers* (AMF—French financial markets authority) for smaller and mid-sized market participants. The Company and the Chairman of the Board of Directors have referred to these documents in order to establish or validate, depending on the case, its risk management and internal control procedures.

Moreover, the AFEP (*Association Française des Entreprises Privées*—Association of French Private Corporations) and the MEDEF *(Mouvement des Entreprises de France*—French Business Confederation) published a set of recommendations on October 6, 2008, concerning the compensation of executive directors of companies whose shares are listed for trading on a regulated market, for the guidance of compensation committees. These recommendations have subsequently been consolidated with the AFEP and MEDEF report of October 2003 and their recommendations of January 2007 on the compensation of executive directors of listed companies to comprise the Code of Corporate Governance of listed companies of December 2008, hereafter referred to as the "AFEP-MEDEF Code".

The Board of Directors of the company has formally adhered to the AFEP-MEDEF Code since 2008 and has rigorously enforced it. In particular, the Board of Directors stated on November 28, 2008, that the company had decided unanimously to adopt the recommendations issued by the AFEP-MEDEF Code as the code of corporate governance to which the company shall voluntarily refer in matters of compensation of its executive directors, and to comply with its provisions or, should any of these provisions be deemed inappropriate with respect to the specific circumstances of the company, to explain the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code.

The AFEP and the MEDEF published their third annual report on the application by SBF 120 companies of their Code of Corporate Governance in November 2011.

The AFEP/MEDEF Code is available for consultation at www.code-afep-medef.com.

As in prior years, the present report describes (i) the conditions in which the Board prepared and organized its proceedings in the fiscal year ended December 31, 2011, (ii) the internal control and risk management procedures implemented by the company, (iii) the rules established by the Board of Directors for the purpose of determining the compensation and benefits of executive directors, and (iv) identifies which of the recommendations of the AFEP-MEDEF Code have been considered ill-suited to the particular characteristics of the company, and explains the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code. This report

is substantively unchanged from the prior year, with the exception of minor modifications, which are indicated as such.
This report was submitted to and discussed by the Audit Committee and approved by the Board of Directors at their meeting of February 23, 2012.

## 1. CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF BOARD PROCEEDINGS

### 1.1. Role and Operation of the Board of Directors

The Board of Directors is responsible under French law for setting the company's strategy and direction for company operations, and for overseeing their implementation. In 2002, as permitted under the (French) New Economic Regulations Act of May 15, 2001, the Board of Directors separated the functions of Chairman of the Board of Directors from those of Chief Executive Officer. The Chairman of the Board is responsible for organizing and directing the Board's proceedings, and for reporting to the General Meeting of Shareholders; he is also responsible for ensuring the proper operation of the company's management bodies. The Chief Executive Officer is invested with full powers to act in the company's name in all circumstances and represents the company in its dealings with third parties. He may be assisted by one or more Executive Vice Presidents. As required in the second resolution of the Extraordinary Shareholders' Meeting of May 3, 2002, the Chief Executive Officer must be a member of the Board of Directors.

### 1.2. Membership of the Board of Directors

The Board of Directors had four members: André Harari, Chairman of the Board of Directors, Daniel Harari, CEO, and Hervé Debache and Louis Faurre, independent directors.
The Board of Directors learned with great sadness of the passing of Louis Faurre, on October 26, 2011 and of Hervé Debache, on November 29, 2011.
The Board of Directors coopted Anne Binder on October 27, 2011 and Bernard Jourdan on December 21, 2011 as independent directors of the company, replacing Louis Faurre and Hervé Debache, respectively, for the remainder of their terms of office, i.e., until the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2013, subject to ratification of their cooptation by the Shareholders' Meeting of April 27, 2012.
Since December 21, 2011, the Board of Directors is therefore composed of the following four members: André Harari, Chairman of the Board of Directors, Daniel Harari, CEO, Anne Binder, and Bernard Jourdan.
André Harari has represented the Compagnie Financière du Scribe, as Chairman of that company, on Lectra's Supervisory Board since the end of the 1970s, and was then appointed to the Board of Directors in 1991. His directorship has been regularly renewed ever since that time.
Daniel Harari was appointed to the Board of Directors for the first time in 1991, and his directorship has been regularly renewed ever since that time.
Louis Faurre and Hervé Debache were first elected to the Board by the Ordinary Shareholders' Meeting of May 22, 1996, and were re-elected by the Ordinary Shareholders' Meetings of May 3, 2002 and April 30, 2008.
Due to the ill health suffered by Louis Faurre and Hervé Debache in 2011, the actual rate of attendance by directors at meetings of the Board of Directors and Board Committees was unusually low.

#### Directors' Biographies and Other Appointments

Details of directors' biographies and other appointments are provided in the company's annual report.
André Harari holds no outside directorships. Daniel Harari holds no directorships outside the company and certain of its subsidiaries.

#### Directors' Shareholdings

Article 12 of the company's by-laws stipulates that each director must hold at least one share of the company throughout his or her term as a director.
At February 23, 2012, André Harari held 5,606,851 of the company's shares, and Daniel Harari 5,507,560 shares (i.e., respectively 19.4% and 19.1% of the share capital). Also, at that date, Anne Binder held 200 of the company's shares, and Bernard Jourdan 78 shares.

#### Criteria Defining Board Members' Independence

André Harari, who is Chairman of the Board of Directors, and Daniel Harari, the Chief Executive Officer, are the

two executive directors and as such are not deemed to be independent.
To comply with the rules of corporate governance, as set forth in the AFEP-MEDEF Code, the Board of Directors must include at least two independent directors. A director is deemed to be independent of company's management when there is no relationship whatever between him and the company or the group to which it belongs liable to compromise the said director's freedom of judgment. Such is the case for two of the four members of the Board of Directors, namely Anne Binder and Bernard Jourdan.
One of the criteria of independence in the AFEP-MEDEF Code concerns the length of a director's term, specifying that a person who has been a director for more than 12 years can no longer be deemed independent. This was the case for Louis Faurre and Hervé Debache. All of the other criteria of independence, apart from the fact of having been directors for more than twelve years, were satisfied.
In furtherance of the company's strategic objectives, and having particular regard to the difficult macroeconomic conditions prevailing since 2007, in its recommendations to the Shareholders' Meeting of April 30, 2008, the Board considered that it would be in the interests of the company and its shareholders to continue to benefit from their experience gained over these years and their deep knowledge of the company, given the long term perspective in which the company invests and operates. The Board considered that a period in excess of twelve years as a director did not impair the independence of their judgment or their authority, but reinforced it, rather. The shareholders concurred with these recommendations and decided to waive the twelve years service criterion.
Anne Binder and Bernard Jourdan, who were coopted to the Board of Directors by decision of the Board on October 27, and December 21, 2011 respectively, satisfy all of the criteria of independence.

### Duration of Board Appointments

The AFEP-MEDEF Code recommends that duration of Board appointments laid down in the corporate by-laws should not exceed four years. This is not the case at Lectra, where for very many years the by-laws have stipulated a duration of six years.
The appointments of André Harari and Daniel Harari expire at the close of the Shareholders' Meeting called to approve the financial statements for fiscal 2011.
As proposed by the Chairman, the Board of Directors has expressed its intent to comply with the AFEP-MEDEF Code and proposes that the terms of office of the new directors be reduced to four years. This will be the case if the Extraordinary Shareholders' Meeting of April 27, 2012 follows the recommendation of the Board of Directors.
The directorships of Anne Binder and Bernard Jourdan will terminate at the expiration of the remainder of the terms of Louis Faurre and Hervé Debache, i.e. at the Ordinary Meeting of Shareholders called to approve the financial statements for the fiscal year ended December 31, 2013, and will therefore be of shorter duration. In the event of a change in the duration of the directors' terms of office under the company by-laws that would reduce it to four years, this rule will take effect immediately and the terms of Anne Binder and Bernard Jourdan will terminate at the end of the Meeting called to approve the financial statements for the fiscal year ended December 31, 2011. In that case, the renewal of their appointments will be proposed to the Shareholders' Meeting of April 27, 2012.

### Representation of Women on the Board

The January 13, 2011 law laid down new rules on the balance between men and women on Boards of Directors. The law comes into force on January 1, 2017 and sets the minimum proportion of directors of each gender at 40% as of that date, with a proportion of 20% at the close of the first Shareholders' Meeting held after January 1, 2014.
When a member of one gender is not represented on the Board at the date publication of the aforementioned law, i.e. on January 28, 2011—as was the case of Lectra—at least one representative of the said gender must be appointed at the next Shareholders' Meeting called to elect one or more director. With the cooptation of Anne Binder to the Board of Directors, this condition has now been satisfied since October 27, 2011. The same applies in regard to the figure of 20%, until the first Ordinary Meeting of Shareholders held after January 1, 2014.

## 1.3. Committees of the Board of Directors

The Board of Directors has created three committees: an Audit Committee (2001), a Compensation Committee (2001), and a Strategic Committee (2004). Each committee has three members, including the two independent directors (in keeping with the rule requiring that independent directors represent a minimum of two-thirds of each committee's members), the Audit Committee and the Compensation Committee being chaired by an independent director. In the opinion of the Board of Directors, the membership of the Audit Committee and the Compensation Committee, which are chaired by an independent director, together with discussions that have taken place with the other independent member of the committee, are consistent with the proper representation of the interests of the different shareholders of the company.

Given the limited number of directors, the functions of the Nominating Committee as laid down in the AFEP-MEDEF Code is performed either by the Compensation Committee or by the Board of Directors in plenary session, depending on the case.

The AFEP-MEDEF Code recommends that the Audit and Compensation Committees contain no executive director. This is not the case, since the Board has considered it useful for the Chairman of the Board of Directors, André Harari, to take part in these committees (André Harari does not hold any operational position, being neither Chief Executive Officer nor Executive Vice President, but he is closely involved in the oversight of the company's operations). Concerning the Audit Committee, article L.823-19 of the French Commercial Code, introduced via the Ordinance of December 8, 2008 rendering the establishment of an Audit Committee mandatory, bars directors holding management positions from membership of the said Committee. This article will only start to apply to the company as of August 31, 2013. It is therefore proposed that André Harari step down from the Audit Committee at the close of the Shareholders' Meeting called to approve the financial statements for fiscal 2012, after which the Audit Committee would consist exclusively of independent directors.

### Audit Committee

*Membership*

The members of the Audit Committee were Hervé Debache, Committee Chairman, Louis Faurre, and André Harari. Since December 21, 2011, the members of the Audit Committee are: Bernard Jourdan, Committee Chairman, Anne Binder, and André Harari.

The AFEP-MEDEF Code requires the members of the Committee to be competent in financial and accounting matters, and that, upon their appointment, they should be provided with information regarding the specific accounting, financial and operational characteristics of the company. This was and is the case with three of its members, in view of their academic qualifications and professional career, as described in their biographies. In particular, Hervé Debache, former Chairman of the Committee, was a certified accountant and a graduate of HEC Business School (Paris) and of Harvard Business School (*International Teachers Program*, United States). Bernard Jourdan, the new Chairman of the Committee, holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus of Ecole Centrale de Paris (Engineering), and obtained an MS (DECS) in accounting from the University of Paris and a BA in economics from the University of Paris Assas.

*Mission*

As recommended by the AFEP-MEDEF Code, the mission of the Audit Committee is to:

– review the financial statements, and in particular ensure that the Company's accounting methods used in preparing the consolidated and statutory financial statements are appropriate and permanent, and to review the effective implementation of processes for the preparation of financial disclosure and of internal control and risk management procedures. The Committee scrutinizes important transactions liable to give rise to conflicts of interest;

– oversee application of the rules governing the independence and objectivity of the Statutory Auditors, guide the procedure for the selection of Statutory Auditors when their current appointment expires, and to make its recommendation to the Board of Directors. The Statutory Auditors also inform the Committee each year of fees paid to members of their network by Lectra

Group companies in respect of fees not directly related to their mission as Statutory Auditors, as well as providing information to the Committee concerning the services performed in respect of audits directly related to their mission as Statutory Auditors.
– make ecommendations.

*Meetings and Activities*

The Audit Committee meets at least four times per year, before the Board meetings called to review the quarterly and annual financial statements. The Statutory Auditors and the Chief Financial Officer attend all of these meetings. The Audit Committee held five meetings in 2011. All members of the Committee were present or represented at all five of its meetings, with an effective attendance rate, excluding proxies, of 57%.
The review of the financial statements, which takes place quarterly, is accompanied by a presentation by the Chief Financial Officer of the company's results, accounting choices made, risk exposure and significant off-balance sheet liabilities. It is also accompanied by a presentation by the Statutory Auditors drawing attention to the essential points raised in regard to financial results, together with accounting choices made, together with an account of their auditing work and observations, if any. The Committee Chairman systematically asks the Statutory Auditors if their reports will be qualified.
The Audit Committee continuously oversees the preparation of the company accounts, internal audits and financial communication, together with the quality and fairness of the company's financial reports. The Chief Financial Officer assists the Committee in the discharge of its duties, and the Committee periodically reviews with him areas of potential risk to which it needs to be alerted or requiring closer attention. The Committee also works with him in reviewing and approving guidelines for the work program on management control and internal control for the year in progress. He also reviews the assumptions used in closing the consolidated and statutory, quarterly, half-year and annual financial statements before they are submitted to the Board of Directors.
In 2011, then on February 9 and 23, 2012, for the review of the fiscal 2011 financial statements, the Committee notably reviewed the goodwill impairment tests and deferred tax assets at December 31, 2011.
The Committee also reviewed the company's 2012 budget as well as the 2012 revenue and income from operations scenarios serving as the basis for the information communicated to the market.
The Committee has not identified any operations liable to give rise to a conflict of interests.
Finally, the Committee reviews and discusses with the Statutory Auditors the scope of their engagement and their fees, and ensures that these are sufficient to enable them to exercise a satisfactory level of control: each Group company is subject to an annual verification, usually carried out by a local member of the Statutory Auditors' firms, and a limited review is conducted on the half-year reporting package of the main subsidiaries.
At each meeting the Committee invites them to report on their control program and on new areas of risk they may have identified in the course of their work, and it discusses the quality of accounting information with them. Once a year, it receives from the Statutory Auditors a report prepared exclusively for its attention on the findings of their audit of the statutory and consolidated financial statements for the year ended, and confirming the independence of their firms in accordance with the French code of professional ethics and the August 1, 2003 (French) Financial Security Act.
The AFEP-MEDEF Code recommends that at the time of expiration of their appointment, the selection or renewal of the Statutory Auditors by the Audit Committee should be preceded by a call for tenders, to be decided by the Board and supervised by the Audit Committee, with the latter insuring selection of the "best bidder" and not the "lowest bidder". Giving priority to continuity and the expertise gained by its Statutory Auditors, the company did not comply with this recommendation on the occasion of the renewal in 2008 of the appointments of the full and alternate Statutory Auditors, but their fees were discussed.
The Committee conducts an annual review with the Statutory Auditors of the risks to their independence. Given the size of the Lectra Group, there is no cause to review safeguard measures required in order to attenuate these risks: the size of the fees paid by the company and its subsidiaries and the share of revenues paid to the audit firms and their networks, are immaterial and are not therefore such as to impair the independence of the Statutory Auditors.

Finally, the Committee assures itself each year that the mission of the Statutory Auditors is exclusive of any other service unrelated to statutory audit, and in particular of any form of consulting activity (legal, tax, IT, etc.) directly or indirectly performed for the benefit of the company and its subsidiaries. However, additional work or work directly complementing the audit of the financial statements is performed after prior approval by the Committee, and the corresponding fees are insignificant.
The Committee has not seen fit to call upon outside experts.

## Compensation Committee

*Membership*

The members of the Compensation Committee were Louis Faurre, Committee Chairman, Hervé Debache, and André Harari. Since December 21, 2011, the members of the Compensation Committee are: Bernard Jourdan, Committee Chairman, Anne Binder, and André Harari.

*Mission*

The mission of the Compensation Committee is broader than that laid down in the recommendations of the AFEP-MEDEF Code and is to:
– review prior to meetings of the Board of Directors the principles and amount of fixed and variable compensation, together with the corresponding annual targets serving to determine the variable portion thereof, and the additional benefits paid to executive directors, to make recommendations and to set those of the other members of the Executive Committee. At balance sheet date, the Committee validates the actual amount corresponding to variable compensation earned during the year elapsed;
– review the fixed and variable compensation of all Group managers whose annual compensation exceeds €150,000 or $200,000;
– review company policy on gender and pay equality, and to make recommendations to the Board, prior to annual discussion by the latter, as required under the January 13, 2011, Act;
– be apprised annually of the Group's human resources performance report, of its policies and of the corresponding plan for the current fiscal year.

*Meetings and Activities*

The Compensation Committee meets before each meeting of the Board whenever the setting of executive directors and other members of the Executive Committee's compensation and related fringe benefits or the granting of stock options are placed on the Board's agenda. It sets the compensation and attendant benefits of the other members of the Executive Committee, and also reviews the compensation of the Group's senior managers once a year. In addition, it annually reviews the company's policy on equal opportunities and equal pay, prior to the meeting of the Board of Directors, as required under the January 13, 2011, Act, and makes its recommendations. The Committee reviews in detail all corresponding documents prepared by the Chief Executive Officer and the Chief Human Capital Officer, and communicates its recommendations to the Board.
The Committee met three times in 2011. All members of the Committee attended or were represented at these meetings, resulting in an effective attendance rate, excluding proxies, of 56%.
For the reasons given above, the Board of Directors has not seen fit to appoint a Selection or Nominating Committee, this mission being performed as required by the Compensation Committee or the Board of Directors in full session. The Committee accordingly recommended the cooptation of Anne Binder and Bernard Jourdan to the Board of Directors, replacing Louis Faurre and Hervé Debache.
Moreover, the AFEP-MEDEF Code recommends that, when reporting on the proceedings of the Compensation Committee to the Board of Directors, the executive directors should be absent when the Board discusses and votes on their compensation. In view of the way in which the Board of Directors functions, the independent directors of the company, who are both members of the Compensation Committee, have not seen fit to discuss the matter in the absence of the executive directors.

## Strategic Committee

*Membership*

The members of the Strategic Committee were André Harari, Committee Chairman, Hervé Debache, and Louis Faurre. Since December 21, 2011, the members of the Strategic Committee are André Harari, Committee Chairman, Anne Binder, and Bernard Jourdan.

*Mission*

The prime mission of the Strategic Committee is to review the coherence of the company's strategic plan, its key challenges, and the internal and external growth drivers allowing it to optimize its development in the medium term.

*Meetings and Activities*

The Committee met once in 2011, as well as on January 26, 2012, in particular to review and discuss progress in execution of the 2010-2012 strategic road map, adopted at the end of 2009 in order to prepare the Group for the new global post-crisis economic challenges, to continuing strengthening its business model and its key operating and financial ratios, the main risks, and to formulate recommendations. It has been regularly and fully informed of the impact on the activities of the Group of developments in the macroeconomic environment. It also reviewed and discussed the main strategic priorities for the Group for 2012, its different scenarios developed in light of various assumptions regarding changes in the macroeconomic environment, together with the broad outlines of the 2012 action plan, research and development plans, and marketing and human resources plans.

All of the Committee's members attended or were represented at these meetings, resulting in an effective attendance rate, excluding proxies, of 100%.

### Limits to the Decision making Powers of the Committees

Subjects that the Chairman of the Board of Directors or the Chairman of either of these Committees wishes to discuss are placed on the agenda of the Committee concerned. When an item on the agenda of the Board of Directors requires prior discussion by the Audit Committee, the Compensation Committee, or the Strategic Committee, the Chairman of the Committee concerned communicates his Committee's comments, if any, and recommendations to the full session of the Board. This communication enables the Board to be fully informed, thus facilitating its resolutions.

No decision within the competence of the Board of Directors is made by the Audit Committee, the Compensation Committee, or the Strategic Committee. All decisions required to be made by the Board of Directors, and in particular those concerning the compensation of executive directors and the granting of stock options or bonus shares programs to managers and employees, together with all external growth operations, are reviewed and approved in full sessions of the Board of Directors.

Moreover, all financial press releases and notices published by the company are submitted to prior review by the Board and the Statutory Auditors, and are published on the same evening after the close of Euronext.

The AFEP-MEDEF Code recommends that, at the time of reporting on the work of the Compensation Committee on the compensation of executive directors, the Board of Directors should discuss the matter in the absence of the latter. This has not been the practice at Lectra since all issues are discussed fully and openly by the Board in plenary session. However, André Harari and Daniel Harari abstain from voting on decisions concerning them.

## 1.4. Internal Rules and Procedures of the Board of Directors and Board Committees

The AFEP-MEDEF Code recommends the establishment of internal rules to govern the procedures of the Board of Directors and the Board Committees.

The Board of Directors had not previously seen fit to introduce internal rules, considering that its size did not justify the institution of such rules to govern its proceedings and functioning. In particular, the Board laid down principles several years ago governing all cases requiring prior approval, notably as regards commitments and guarantees given by the company, significant transactions outside the stated strategy of the company (the case has never arisen), and all external growth operations, and has laid down the rules whereby it is informed of the company's financial situation and cash position. It has also, from the outset, had in place a procedure for managing conflicts of interest, if any (the director concerned abstains from participating to the vote in cases where a conflict of interest occurs). The company did not encounter this situation in the course of the period, apart from the remuneration of executive directors and related party transactions with subsidiaries.

In view of the changes that have occurred in its membership, and at the motion of its Chairman, the Board of Directors has seen fit to draw up a set of

internal rules and procedures, which were discussed and approved by the Board of Directors at its meeting of February 9, 2012. This document is available for consultation on the company's website, lectra.com.

### 1.5. Timetable and Meetings of the Board of Directors

The company's financial calendar setting out the dates for the publication of quarterly and annual financial results, those of the Annual General Meeting of Shareholders and the two annual analysts' meetings, is established before the end of the previous fiscal year. The calendar is published on the company's website and communicated to NYSE Euronext.

The dates of six meetings of the Board of Directors are decided on the basis of this calendar. These comprise the quarterly and annual financial results publication dates, approximately 45-60 days prior to the Annual General Meeting of Shareholders in order to review the documents and decisions to be presented, and approximately twenty trading days after the dividend approved by the Annual Meeting of Shareholders is made payable, or thirty to forty-fourth calendar days after the Annual Shareholders' Meeting if there is no dividend, i.e. around June 10, for the granting of the annual stock option plan. The Statutory Auditors are invited to, and systematically attend, these meetings (with the exception of the meeting to decide on the annual stock options plan). In addition, the Board also meets outside of these dates to discuss other subjects falling within its responsibilities (including all planned acquisitions or the review of the company's strategic plan) or those that the Chairman wishes to submit to the directors. The Chief Financial Officer was appointed Board Secretary in 2006, and is systematically invited to attend and takes part in all Board meetings, except when prevented from doing so.

The Board of Directors met seven times in 2011. All members of the Board were present or represented at all of its meetings, with an effective attendance rate, excluding proxies, of 60%.

### 1.6. Organization of Board Proceedings—Communication of Information to Directors

The agenda is set by the Chairman of the Board of Directors after consulting with the Chief Executive Officer, the Chief Financial Officer and, where appropriate, the Chairmen of the Audit Committee and the Compensation Committee in order to place on the agenda all subjects they wish to be discussed at the forthcoming Board meeting.

In advance of each Board meeting, a set of documents is systematically addressed to each director, to the employees' Works Council representatives and to the Chief Financial Officer, as well as to the Statutory Auditors for the four meetings called to review the financial statements and for the meeting to prepare for the Annual General Meeting of Shareholders.

Details of each item on the agenda are provided in a written document prepared by either the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, or the Chief Human Capital and Information Officer, as required, or are presented during the meeting itself.

As in previous years, in 2011 all documents required to be communicated to the directors were made available to them in compliance with regulations. Further, the Chairman regularly asks directors if they require additional documents or reports in order to complete their information.

Detailed minutes are produced for each meeting and submitted to the Board of Directors for approval at a subsequent meeting.

### 1.7. Evaluation of the Board of Directors

The AFEP-MEDEF Code recommends that once a year the Board should devote an item on its agenda to a discussion of its own functioning, reviewing its membership, organization and procedures. This item, never previously discussed formally, was considered by the Board for the first time at its meeting on February 11, 2010. It was subsequently considered by the Board at its meetings of February 10, 2011, and of February 9, 2012. In view of the new composition of the Board, this will again be placed on the agenda of the first meeting of the Board of Directors in 2013.

It also recommends a formal evaluation exercise every three years at least, assisted by an outside consultant should the need arise, and that the shareholders be informed annually of the performance of these evaluations. No such evaluation has been performed by the company.

The Board considers that, because of its small size, the comprehensive nature of the subjects discussed, the extent of its disclosure, and the fact that the directors have many years experience of working together and regularly discussing its functioning, this recommendation is satisfied informally, and that there is no need for a formal evaluation.
The AFEP-MEDEF Code further recommends that the outside directors meet periodically in the absence of the internal directors. In light of the functioning of the Board of Directors, the company's independent directors have not seen fit to meet without the executive officers being present.

## 2. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES ESTABLISHED BY THE COMPANY

In its work, and in preparing this report, the Board referred to the principles set forth in the reference framework published by the AMF on January 22, 2007, and to the guide to implementing this recommendation for small and mid-sized companies, published initially in January 2008, and a new version of which was published in July 2010. The general approach adopted for this purpose makes due allowance for issues specifically applicable to the company and its subsidiaries having regard to their size and respective activities.
This chapter refers to the parent company Lectra SA and to its consolidated subsidiaries, the risk management and internal control procedures applying to all Group companies. This concerns procedures as well as control processes especially, which apply to all of the subsidiaries.

### 2.1. Lectra Group Internal Control System

The internal control system designed and implemented by the Group comprises a body of rules, procedures and charters. It also encompasses reporting obligations and the individual conduct of all of the players involved in the internal control system by virtue of their knowledge and understanding of its aims and rules.
This system aims at providing reasonable assurance of achieving the following objectives:

#### *2.1.1. Legal and Regulatory Compliance*

The company's internal control procedures are designed to provide assurance that the operations carried out in all Group companies comply with the laws and regulations in force in each of the countries concerned for the different areas in question (e.g. company, customs, labor and tax, law, etc.).

#### *2.1.2. Oversight of Proper Application of General Management Instructions*

A series of procedures has been put in place to define the scope and the limits to the powers of action and decision of Group employees at all levels of responsibility. In particular these serve to ensure that the business of the Group is conducted in accordance with the policies and ethical rules laid down by General Management.

#### *2.1.3. Protection of Assets and Optimizing Financial Performance*

The purpose of the processes in place and procedures to control their application is to optimize the financial performance consistently with the company's short and medium-term financial goals.
Internal control procedures contribute to the safeguarding of Group fixed and intangible assets (such as intellectual property, company brands, customer relationships and corporate image), as well as the Group human capital, all of which play a key role in its property, business activity and growth dynamism.

#### *2.1.4. Reliable Financial Information*

Among the control mechanisms in place, special emphasis is placed on procedures for preparing and processing accounting and financial information. Their aim is to generate reliable, high quality information that presents a fair view of the company's operations and financial condition. In addition, these procedures are designed to produce timely quarterly and annual financial statements, ready for publication thirty days after the close of each quarter at the latest, and a maximum of forty-five days after fiscal year end.
The internal control system put in place by Lectra covers all Group companies, taking into account their diversity in terms of size and the goals and situation of the different

subsidiaries and the parent company. Similarly, the cost of implementing the system's performance target for covered risks versus residual risks is compatible with the Group's resources, its size and the complexity of its organization.
While this system provides reasonable assurance of fulfillment of the aforesaid objectives, it can provide no absolute guarantee of doing so. Many factors independent of the system's quality, in particular human factors or those attributable to the outside environment in which the company operates, could impair its effectiveness.

## 2.2. Components of Internal Control

### *2.2.1. Organization, Decision-Making Process, Information Systems and Procedures*

#### *a) Organization and Decision-Making Process*

As indicated in Chapter 1, the Board of Directors is responsible for setting the company's strategy and direction for company operations, and for overseeing their implementation. The Chairman of the Board is responsible for ensuring the proper operation of the company's management bodies.
The Audit Committee discusses the internal control system at least once a year with the Group Statutory Auditors. It gathers their recommendations and, notably, ensures that their level and quality of coverage are adequate. It reports on its proceedings and opinions to the Board of Directors.
The Executive Committee implements the strategy and policies defined by the Board of Directors. The Executive Committee is chaired by the Chief Executive Officer and comprises two other members, the Chief Financial Officer and the Chief Human Capital and Information Officer, to whom broad powers have been delegated and who are critical to the effectiveness of the internal control system.
The Chief Executive Officer is directly responsible for worldwide sales and service operations, and the regional managers and subsidiaries report directly to him.
The heads of the Lectra Group's various corporate divisions also report directly to the Chief Executive Officer, their organization and missions being adapted to the changing external and internal context of the company, i.e.:

- the Finance division, which comprises: treasury, accounting and consolidation, management control and audit, legal affairs, industrial affairs (purchasing, manufacturing, logistics, quality control);
- the Human Resources and Information Systems division;
- the Sales division;
- the Strategic Accounts and Projects division;
- the Services division;
- the Software and Hardware Research and Development divisions;
- the Marketing and Communications division.

All important decisions (sales strategy, organization, investments and recruitment) relating to the operations of a region or Group subsidiary are made by a "board of directors" responsible for the region or subsidiary concerned. These boards, chaired by the Chief Executive Officer, usually meet quarterly for the regions and/or main countries, with the regional managers and heads of the subsidiaries concerned as well as their management teams attending. The latter submit to the "boards" their detailed action plans drawn up on the basis of Group strategic and budget directives, and they report on the implementation of decisions as well as on their operations and performance.
The powers and limits to the powers of Directors of subsidiaries and regions and of the Directors of the various corporate divisions are laid down by the Chief Executive Officer or by a member of the Executive Committee, depending on the area concerned. These powers and their limits are communicated in writing to the Directors concerned. The Directors are then required to account for their utilization of the powers thus conferred on them in the pursuit of their objectives, in monthly reports on their activities to the Chairman of the Board of Directors and to the members of the Executive Committee.
The internal control process involves a large number of other players. The corporate divisions are at the center of this organization. They are responsible for formulating rules and procedures, for monitoring their application and, more generally, for approving and authorizing a large number of decisions connected with the operations of each Group entity.

Clear and precise delineation of organizations, responsibilities and decision making processes, together with regular written and verbal exchanges, allow all players to understand their role, discharge their duties and form a precise assessment of their performance vis-à-vis the objectives assigned to them and also vis-à-vis those of the Group as a whole.

*b) Information Systems*

The Group's information and reporting systems allow it to monitor the performances contributing to fulfillment of its objectives regularly and precisely.

The information systems have been upgraded and adapted to the expanded requirements of General Management in terms of the quality, relevance, timeliness and comprehensiveness of information, while at the same time providing stronger controls. The *Elios* project to overhaul all IT systems, launched in 2005, which concerns all front office and back office activities in the parent company, Lectra SA and in all subsidiaries, became operational within the parent company on January 1, 2007. Functions concerned currently comprise the parent company's purchasing, supply chain and accounting functions, together with order and billing processing, and after-sales services of the parent company and most subsidiaries. At December 31, 2011, *Elios* had been deployed in 22 of the 26 Group subsidiaries concerned by the project. It will be fully deployed in all these subsidiaries at the end of 2012.

The new system has introduced new operational modes with improved management procedures and rules, thanks in particular to better integration of business processes. Additional benefits further bolstering the Group's internal controls include the integration of inter-company financial information and homogeneous IT tools offering greater interoperability, the system being better adapted to business and operational processes, which spell improved performance and more effective controls. A new statutory accounts consolidation application was deployed in 2010 in order to facilitate data capture and reinforce the analytic capabilities of the finance teams, based on automatically generated reports.

Moreover, a Group human resources administration information system was deployed in 2010, replacing existing systems. In particular, it serves to track personnel (recruitments, promotions, departures, etc.), compensation evolutions other than the administration of pay, and training attendance. In addition to streamlining the entry and automation of reports, the system harmonizes procedures across the entire Group with improved control, hitherto performed manually.

Finally, specific procedures are in place to insure the physical security and preservation of data, these procedures being periodically upgraded in response to the changing nature of risks.

*c) Procedures*

A large number of procedures spell out the manner in which the different processes are to be performed, together with the roles of the different persons concerned, the powers delegated to them within the framework of these processes. They further prescribe the method of controlling compliance with rules for the performance of processes. The main cycles or subjects entailing issues critical to Group objectives are:

- **Sales**

A series of procedures exists to cover the sales cycle and more generally the entire marketing and sales process. In particular the "Sales rules and guidelines" clearly set forth rules, delegations of powers, and circuits, together with the controls performed at the different stages in the sales process to verify the authenticity and content of orders, together with shipment and billing thereof.

- **Credit Management**

Credit management procedures are designed to limit the risks of non-recovery and shorten accounts collection delays. These procedures also track all Group accounts receivable above a certain threshold, providing for both upstream control of contractual payment terms and the customer's solvency prior to booking of the order, together with the systematic and sequenced implementation of all means of recovery, from simple reminders to legal proceedings. These means of recovery are coordinated by the credit management department in conjunction with the Legal Affairs department.

Historically, bad debts and customer defaults have been rare.

There is no material risk of dependence on any particular customer or group of customers, no individual customer representing more than 6% of consolidated revenues in

2011, and the 10 largest customers of the company do not represent a critical percentage of revenue, together accounting for less than 20% of revenue.

- **Purchasing**

The parent company's purchases and capital expenditure account for the bulk of Group outlays under these headings. Procedures are in place to ensure that all purchases from third parties are compliant with budgetary authorizations. They further spell out formally the delegations of powers regarding expenditure commitments and signatures, based on the principle of the separation of tasks within the process. The deployment of the new computerized purchasing management systems at the parent company on January 1, 2007 has further enhanced control of these procedures. The information system now in place reinforces the process of control over the proper application of rules.

- **Personnel**

Under the procedures in place all forecast or actual personnel changes are communicated to the Group Human Resources division. All recruitments and dismissals must receive the division's prior authorization. In the case of dismissals, the division must systematically assess the actual and forecast costs of the dismissal and communicate its findings to the Finance division, which in turn ensures that the resulting liability is recognized in the Group financial statements.
Compensation is reviewed annually and submitted to the Chief Human Capital Officer for approval. Finally, for all personnel whose total annual compensation exceeds €150,000 or $200,000, the Executive Committee submits the annual compensation review, together with rules for the calculation of variable compensation, to the Compensation Committee for prior approval.

- **Treasury and currency risk**

The company's internal control procedures regarding treasury operations mainly concern bank reconciliations, security of payment means, delegation of signing authority, and monitoring of currency risk.
Bank reconciliation procedures are systematic and comprehensive. They entail verification of all treasury department book entries, together with reconciliation between treasury balances and the accounts' bank balances.
The company has implemented secure means of payment to avoid or limit as far as possible all risks of fraud, and agreements covering check security have been signed with each of the Group's banks. The EBICS TS protocol has been used by the company to secure payments transfer since 2011.
Bank signature authorizations for each Group company are governed by written procedures laid down by the Executive Committee and are revocable at all times with immediate effect. Signing powers delegated under these procedures are notified to the banks, which must acknowledge receipt thereof.
Recourse to short and medium-term borrowing is strictly limited and is subject to prior approval by the Chief Financial Officer within the framework of delegations previously authorized by the Board of Directors.
All decisions pertaining to currency hedging instruments are made jointly by the Chief Executive Officer and the Chief Financial Officer, and are implemented by the Group Treasurer.

### *2.2.2. Identification and Management of Risks*

Risk factors and risk management processes are described in detail in chapter 4 of the Management Discussion to which this report is appended.

### *2.2.3. Control Activity: Players Involved in Risk Control and Management Processes*

The Group does not have an internal audit department as such, but the Group Finance division—in particular the treasury and management control teams—and the Department of Legal Affairs are central to the internal control and risk management system.
Controls are in place at many points throughout the Group's organization. These are adapted to the critical aspects of the processes and risks to which they apply, depending on their influence on the performance and fulfillment of Group objectives. Controls are conducted by means of IT applications, procedures subject to systematic manual control, via ex post audits, or via the chain of command, in particular by members of the Executive Committee. Spot checks are also performed in the various Group subsidiaries.
In each subsidiary, the person in charge of finance and administration, which usually comprises legal affairs, also plays a major role in the organization and conduct

of internal controls. The primary mission of this person, who reports functionally to the Group Finance division, is to ensure that the subsidiary complies with the rules and procedures established by the corporate divisions.
The Information Systems division is responsible for guaranteeing the integrity of data processed by the various software packages in use within the Group. It works with the Group Finance division to ensure that all automated processing routines contributing to the preparation of financial information are compliant with accounting rules and procedures. In addition, it verifies the quality and completeness of information transferred between the different software applications. Finally, it is responsible for information systems security.
The Group Legal Affairs department and Human Resources division perform legal and social audits of all Group subsidiaries. Their role notably consists in verifying that their operations are compliant with the laws and other legal and social regulations in force in the countries concerned. They also supervise most of the contractual relations entered into between Group companies and employees or third parties.
The Legal Affairs department works with a network of law firms located in the countries concerned and specializing in the subjects at issue, as needed. The Legal Affairs department is also responsible for identifying risks requiring insurance and formulating a policy for covering these risks by means of appropriate insurance contracts. It supervises and manages potential or pending litigation, in conjunction with the Group's attorneys where appropriate.
Currency risk is managed centrally by the Group Treasurer. Group exposure is hedged by a range of derivative instruments: forward currency contracts are used to hedge foreign exchange balance sheet positions; purchases of currency puts—when their cost relative to their benefits is not prohibitive—or forward contracts are utilized to hedge estimated exposure to fluctuations in billing currencies for future periods.
Finally, the company employs a dedicated intellectual property team that works in conjunction with the Legal Affairs department. It plays a key role preventively to protect the company's innovations and avert all risks of intellectual property rights infringement.

#### *2.2.4. Continuous Oversight of the Internal Control System*

Incidents observed on the occasion of controls or the findings of ex post audits of compliance with internal control rules and procedures serve both to ensure the proper functioning of the latter and to consider appropriate improvements.
Given the nature of its business, the Group is obliged to adapt its organization to market changes whenever necessary. Each change in its organization or modus operandi is preceded by a review process to ensure that the proposed change is consistent with the preservation of an internal control environment complying with the objectives described in chapter 2.1 above. Within this context, the scope and distribution of the powers of individuals and teams, reporting lines and rules for the delegation of signing authority, are subject to scrutiny and are adjusted, if necessary, prior to all organizational changes.
Oversight of internal controls is underpinned by a continuous improvement process focused notably on:
– updating the Group's risk mapping;
– updating and/or formalizing accounting and financial procedures, procedures relating to human resources management and internal control rules;
– updating and improving reporting tools;
– general improvements to internal control procedures, IT systems and rules as part of the deployment of the *Elios* project, and the Group-wide development of a new human resources information management system in 2010.

### 2.3. Specific Procedures to Ensure the Reliability of Accounting and Financial Information

In addition to the elements described in the foregoing paragraphs, the Group has implemented precise procedures for the preparation and control of accounting and financial information. This is notably the case regarding reporting and budget procedures, and procedures for the preparation and verification of the consolidated financial statements, which are an integral part of the internal control system. Their purpose is to ensure the quality of accounting and financial information communicated to management teams, the Audit Committee, the Board of Directors, and to the shareholders and the financial market, with particular

reference to the consolidated and statutory financial statements.
The Finance Department regularly identifies risks liable to impair the compilation and processing of accounting and financial information, together with the quality of that information. It communicates continuously with the accounting and finance departments of the Group's subsidiaries to insure that these risks are managed. Difficulties arising in the management of a specific risk are dealt with and/or give rise to specific action by the financial control teams. This analysis and centralized risk management process are additional to the procedures described below to reduce the risks of deliberate or involuntary error in the accounting and financial information published by the company.

*2.3.1. Reporting and Budget Procedures*

The company produces a comprehensive and detailed financial reporting that covers all aspects of the activities of each parent company unit and each subsidiary. This is based on a sophisticated financial information system built around a market-leading software package. Reporting procedures are based primarily on the budgetary control system put in place by the Group. The Group's annual budget is prepared centrally by the Finance division management control teams. This detailed, comprehensive process consists in analyzing and quantifying the budgetary targets of each subsidiary and Group unit under a very wide range of income statement and treasury headings, working capital requirements, together with indicators specific to each activity and the structure of operations. This system permits rapid identification of any deviation in actual or forecasted results, and of any risk of error in the financial information produced.

*2.3.2. Accounts Preparation and Verification Procedures*

*a) Monthly Financial Results*

The actual results of each Group company are verified and analyzed on a monthly basis, and new forecasts for the current quarter are consolidated. Each deviation is identified and described in detail in order to determine its causes, verify that procedures have been respected and the financial information properly prepared. This approach is designed to ensure that transactions recorded in the accounts fully reflect the economic reality of the Group's business and operations.
Assets and liabilities are subject to regular controls to ensure the accuracy of monthly reported results. These controls include physical counting of fixed assets and reconciliation with accounts; a revolving physical count of inventories (the most important references being counted four times per year); a comprehensive monthly review, with the credit management department, of overdue accounts receivable *(see paragraph 2.2.1 c above)*; a monthly analysis of provisions for risks and charges, and provisions for asset impairment.

*(b) Quarterly Consolidation*

Group financial statements (statement of financial position, income statement, statement of cash flows, and statements of changes in equity) are consolidated on a quarterly basis. The process of preparing the consolidated financial statements comprises a large number of controls to ensure the quality of the accounting information communicated by each of the consolidated companies and of the consolidation process itself.
All Group subsidiaries employ a single standard consolidation reporting package and the procedure is subject to a wide range of precise controls. Actual results are compared with forecasts received previously in the monthly reporting procedure. Discrepancies are analyzed and justified and, more generally, the quality of information transmitted is verified. Upon completion of the consolidation process, all items in the income statement, statement of financial position and statement of cash flows are analyzed and justified.
The resulting financial statements are reviewed by the Chief Executive Officer and then submitted to the Audit Committee, before being reviewed and approved by the Board of Directors, and published by the company.

## 3. PRINCIPLES AND RULES ESTABLISHED BY THE BOARD OF DIRECTORS FOR DETERMINING THE COMPENSATION AND BENEFITS OF EXECUTIVE DIRECTORS

The recommendations of the AFEP-MEDEF Code:
– spell out principles for setting the compensation of executive directors of listed companies;
– prohibit the simultaneous holding of a position as executive director and an employment contract;

– place a cap on one-time termination payments ("golden parachutes") to two years' compensation, and abolish the granting of indemnities in the event of voluntary resignation and in the event of failure;
– strengthen the rules governing pension plans and place a cap on additional pension benefits;
– make stock option plans for senior managers conditional on the extension of such option plans to all employees or to the existence of mechanisms entitling all employees to a share of profits;
– terminate the granting of bonus shares unrelated to performance to executive directors; the latter must also purchase shares at market price additional to any performance-related shares granted to them;
– make compensation policies more transparent by means of a standardized disclosure format.

In its statement on November 28, 2008, the company declared that:
– it had already been in spontaneous compliance with these recommendations for many years with regard to André Harari and Daniel Harari in their respective capacities as Chairman of the Board of Directors and Chief Executive Officer;
– in particular, André Harari and Daniel Harari have never combined their positions as executive directors with an employment contract, are not entitled to any component of compensation, indemnity or benefit owed or liable to be owed to them in virtue of a termination or change of their functions, to any additional defined benefit pension plan, stock options or bonus shares.

Detailed information additional to the disclosures below is provided in the Management Discussion.

### 3.1. Executive Directors

The sole executive directors at present are André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer.

The principles and rules for determining the compensation and benefits of executive directors are subject to prior review and recommendation by the Compensation Committee. This Committee notably reviews total compensation and the precise rules for determining its variable portion and the specific annual performance targets that serve to calculate it. All of these components are then discussed by the Board of Directors in full session and are subject to its sole discretion.

No bonuses in any form are paid, as a matter of principle.

The compensation of executive directors is paid in its entirety by Lectra SA. They receive no compensation or particular benefit from companies controlled by Lectra SA within the meaning of article L. 233-16 of the French Commercial Code (Lectra SA is not controlled by any company). No stock options have been granted to the two executive directors since 2000. The only benefit accorded to them concerns the valuation for tax purposes of the utilization of company cars and the payment of life insurance premiums, which amount is indicated in the Management Discussion and Analysis to which this report is amended.

Finally, the executive directors are not the beneficiaries of any particular arrangement or specific benefit regarding deferred compensation, termination payment or retirement benefit committing the company to pay them any form of indemnity or benefit if their duties are terminated, at the time of their retirement (they are not bound to the company by any form of employment contract) or, more generally, subsequent to the termination of their functions.

Each year the Board of Directors determines the total amount of target-based compensation for the year if annual targets are achieved. This amount was unchanged for the years 2005 to 2011. The same holds for the fixed portion of compensation since 2003, and for the variable portion of annual target-based compensation since 2005. The variable portion of target-based compensation for the Chairman of the Board of Directors and the Chief Executive Officer is equal to 60% of their total compensation.

Until 2010, as for prior periods, the variable portion of their compensation was determined on the basis of two quantitative criteria (to the exclusion of all qualitative criteria) expressed in terms of annual targets, namely: consolidated pre-tax profit excluding net financial expense and non-recurring items (which accounts for 67%), and consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after certain restatements (which accounts for 33%). This variable portion was equal to zero below a certain threshold, to 100% if annual targets are achieved, with

a cap of 200% if annual targets are exceeded. Between these bounds, the amount is calculated on a straight-line basis. Performance criteria were expanded by the Board of Directors in 2011 and now include four criteria reflecting the company's strategy of profitable activity and earnings growth, namely: (i) consolidated profit before tax, excluding non-recurring items (accounting for 50%); (ii) consolidated free cash flow excluding non-recurring items and income tax, and after restatement of certain items (accounting for 15%); (iii) a criterion measuring the contributive value of growth in sales activity (accounting for 25%); and (iv) a criterion measuring the contributive value of recurring contracts (accounting for 10%). Below certain thresholds it is equal to zero, if annual targets are met in full it is 100%, and it is capped at 200% if annual targets are exceeded. Between these thresholds, it is calculated on a linear basis.

For 2012, the Board last year stated its intention to review their total compensation based on "fulfillment of annual targets." In accordance with the proposal of the Chairman of the Board of Directors and the Chief Executive Officer to defer this review until 2013, having regard to the depressed macroeconomic environment and current uncertainties, the Board has decided to maintain this compensation unchanged for a further year (this decision could be reviewed in the course of the year if there is a return to more favorable conditions). The four performance criteria set in 2011 have been left in place for 2012, with the same relative weightings, with only the annual targets and corresponding thresholds having been revised according to the Group's objectives for the fiscal year.

Annual targets are set by the Board of Directors based on the as recommendations of the Compensation Committee. The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent with the evaluation of executive directors' performance, the company's medium-term strategy and the general macroeconomic conditions, and in particular those of the geographic markets and market sectors in which the company operates. After the close of each fiscal year, the Committee verifies the annual application of these rules and the final amount of variable compensation paid, on the basis of the audited financial statements.

These targets apply also to the two members of the Executive Committee who are not executive directors—namely Jérôme Viala, Chief Financial Officer, and Véronique Zoccoletto, Chief Human Capital and Information Officer—together with around around fifteen managers of the parent company Lectra SA; the only differences concerning the portion relating to target-based variable compensation, which is set individually for each manager.

Executive directors also receive Directors' fees in addition of the fixed and variable compensation.

### 3.2. Non-Executive Directors

Non-executive directors —i.e. the two independent Directors—receive no form of compensation other than Directors' fees.

### 3.3. Directors Fees

Directors' fees approved annually by the General Meeting of Shareholders are distributed in equal proportions among the Directors.

In view of the commitment displayed by the members of the Board of Directors, in particular the historically high rate of attendance at meetings of the Board of Directors and its Committees, the Board has not seen fit to institute a variable portion dependent on attendance in calculating the payment of Directors' fees or a supplementary fee to encourage directors' participation in specialized committees.

## 4. PROHIBITION ON TRADING IN SHARES APPLICABLE TO CERTAIN GROUP MANAGERS

In keeping with the rules of corporate governance, the Board of Directors decided on May 23, 2006, to prohibit members of the corporate management and management teams of the Lectra Group from buying or selling the company's shares during the period starting fifteen calendar days before the end of each calendar quarter and expiring two stock market trading days after the meeting of the Board of Directors closing the quarterly and the annual financial statements of the Lectra Group. This prohibition does not apply to the exercise of stock options during the period in question by any person figuring on the list drawn up by the Board of

Directors, but the said persons are required to hold any resulting shares until the expiration of the period.
The Board of Directors has further decided that, in addition to each of its members, only the two members of the Executive Committee who do not hold a directorship have "the power to make management decisions regarding the company's development and strategy" and "regular access to inside information", and are therefore required to notify the AMF within the stipulated deadlines of any purchases, sales, subscriptions or exchanges of financial instruments issued by the company.
Daniel Dufag, the company's General Counsel, has also been named compliance officer for all matters pertaining to the General Regulation of the AMF concerning the drawing up of lists of insiders. His duties include adapting the guidelines published by the ANSA and to draw up the guide to procedures specific to Lectra, to draw up lists of permanent and occasional insiders, to notify these people individually in writing, accompanied by a memorandum spelling out the procedures specific to Lectra.
The list drawn up for the first time on the occasion of the meeting of the Board of Directors of July 27, 2007, is updated to indicate the people on this list that have left the company, together with those whom the General Management proposes to add to this list in virtue of their new duties or because they have reached a level of responsibility and information within the Group justifying their inclusion, or because they have been recently recruited. This list is reviewed and approved annually by the Board of Directors.

## 5. POWERS OF THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is invested with full and unlimited powers. He exercises his powers within the limits of the corporate aims and subject to those explicitly attributed to the Shareholders' Meetings and to the Board of Directors.

## 6. SPECIFIC FORMALITIES FOR ATTENDANCE AT SHAREHOLDERS' MEETINGS

The right of attendance at shareholders' meetings, to vote by correspondence or to be represented, is subject to the following conditions:
– for registered shareholders *(actionnaires nominatifs)*: shares must be registered in their name or in the name of an authorized intermediary in the company register, which is maintained by Société Générale in its capacity as bookkeeper and company agent, at zero hour, Paris time, on the third working day preceding the day set for the said Meeting.
– for holders of bearer shares *(actionnaires au porteur)*: receipt by the General Meetings Department of Société Générale of a certificate of attendance noting the registration of the shares in the register of bearer shares at zero hour, Paris time, on the third working day preceding the day set for the said Meeting, delivered by the financial intermediary (bank, financial institution or brokerage) that holds their account.
Shareholders not attending this meeting in person may vote by correspondence or may vote by proxy by giving their proxy voting form to the Chairman of the Meeting, to their spouse, or to another shareholder or any other person of their choice, in accordance with the law and regulations, and in particular those laid down in article L. 225-106 of the French Commercial Code.
Shareholders are free to dispose of their shares in whole or in part until the time of the Meeting. However, if the disposal takes place before zero hour, Paris time, on the third working day preceding the day set for the said Meeting, the financial intermediary that holds their account shall notify the disposal to Société Générale, and shall transmit the necessary information. The company shall invalidate or modify the vote by correspondence, proxy vote, admission card or the certificate of attendance in consequence of the foregoing. However, if the disposal takes place after zero hour, Paris time, on the third working day preceding the day set for the said Meeting, it will not be notified by the financial institution holding the account, nor taken into consideration by the company for the purposes of attendance at the Shareholders' Meeting.

Registered shareholders and holders of bearer shares unable to attend the Meeting in person may vote by correspondence or by proxy by applying to Société Générale for a voting form at least six days before the Meeting. Correspondence and proxy voting forms together with all documents and information relating to the Meetings are available on the company website at www.lectra.com at least twenty-one days before the time of these Meetings. These documents are also obtainable on request, free of charge, from the company. Written questions for submission to the Meeting may be addressed to the company at its headquarters: 16-18 rue Chalgrin, 75016 Paris, or by electronic mail at the following email address: investor.relations@lectra.com.
All correspondence and proxy voting forms sent by post must reach Société Générale on the day prior to the date of the Meeting at the latest.
As required in article R. 225-79 of the French Commercial Code, notification of designation and revocation of a proxy may also be communicated electronically, by sending an electronically signed email, employing a reliable procedure for identification of the shareholder guaranteeing that the notification was effectively sent by the said shareholder, to relations.investisseurs@lectra.com.

Shareholders holding a fraction of the capital defined in articles L. 225-102 para. 2 and R. 225-71 para 2 of the French Commercial Code must transmit any draft resolutions they wish to place on the agenda of the Meeting at least twenty-five days prior to the date of the Meeting.
Practical details pertaining to the above will be communicated in the Notice of Meeting sent to the shareholders.

## 7. PUBLICATION OF INFORMATION CONCERNING POTENTIALLY MATERIAL ITEMS IN THE EVENT OF A PUBLIC TENDER OFFER

As required under article L. 225-37 para. 9 of the French Commercial Code, potentially material information is disclosed in chapter 8 of the Management Discussion and Analysis to which this report is appended, under *"Information Concerning Items Covered by Article L. 225-100-3 of the French Commercial Code as Amended by the March 31, 2006 Public Tender Offers Act."*

André Harari,
Chairman of the Board of Directors
February 23, 2012

# CONSOLIDATED FINANCIAL STATEMENTS


**104** – Statement of financial position

**105** – Income statement

**106** – Statement of cash flows

**107** – Statement of changes in equity

**108** – Notes to the consolidated financial statements

# STATEMENT OF FINANCIAL POSITION
consolidated

## ASSETS

| As at December 31<br>(in thousands of euros) | | 2011 | 2010 |
|---|---|---|---|
| Goodwill | note 1 | 31,309 | 30,999 |
| Other intangible assets | note 2 | 4,742 | 5,452 |
| Property, plant and equipment | note 3 | 11,589 | 11,066 |
| Non-current financial assets | note 4 | 1,899 | 1,700 |
| Deferred tax assets | note 6 | 9,543 | 12,938 |
| **Total non-current assets** | | **59,081** | **62,155** |
| Inventories | note 7 | 21,112 | 19,336 |
| Trade accounts receivable | note 8 | 44,533 | 43,862 |
| Current income tax receivable | note 9 | 10,841 | 6,918 |
| Other current assets | note 9 | 6,346 | 4,674 |
| Cash and cash equivalents | | 26,320 | 30,174 |
| **Total current assets** | | **109,152** | **104,964** |
| **Total assets** | | **168,233** | **167,119** |

## EQUITY AND LIABILITIES

| (in thousands of euros) | | 2011 | 2010 |
|---|---|---|---|
| Share capital | note 10 | 28,037 | 27,644 |
| Share premium | note 10 | 2,487 | 1,039 |
| Treasury shares | note 10 | (722) | (386) |
| Currency translation adjustment | note 11 | (8,816) | (8,877) |
| Retained earnings and net income | | 37,700 | 22,612 |
| **Total equity** | | **58,686** | **42,032** |
| Retirement benefit obligations | note 12 | 4,512 | 4,124 |
| Borrowings, non-current portion | note 13 | 16,684 | 27,694 |
| **Total non-current liabilities** | | **21,196** | **31,818** |
| Trade and other current payables | note 14 | 46,696 | 49,120 |
| Deferred revenues | note 15 | 35,722 | 35,835 |
| Current income tax liabilities | note 6 | 1,776 | 537 |
| Borrowings, current portion | note 13 | 1,005 | 4,905 |
| Provisions for other liabilities and charges | note 16 | 3,152 | 2,872 |
| **Total current liabilities** | | **88,351** | **93,269** |
| **Total equity and liabilities** | | **168,233** | **167,119** |

The notes on pages 108 through 166 are an integral part of the consolidated financial statements.

# INCOME STATEMENT
consolidated

| Twelve months ended December 31<br>(in thousands of euros) | | 2011 | 2010 |
|---|---|---|---|
| **Revenues** | note 18 | **205,923** | **190,290** |
| Cost of goods sold | note 19 | (61,613) | (54,193) |
| **Gross profit** | note 19 | **144,310** | **136,097** |
| Research and development | note 20 | (11,463) | (9,547) |
| Selling, general and administrative expenses | note 21 | (103,925) | (103,701) |
| **Income (loss) from operations before non-recurring items** | | **28,922** | **22,849** |
| Non-recurring income | note 23 | – | 3,291 |
| Non-recurring expenses | note 22 | – | (1,053) |
| **Income (loss) from operations** | | **28,922** | **25,087** |
| Financial income | note 26 | 656 | 312 |
| Financial expenses | note 26 | (2,204) | (3,739) |
| Foreign exchange income (loss) | note 27 | (165) | (1,254) |
| **Income (loss) before tax** | | **27,209** | **20,406** |
| Income tax | note 6 | (8,012) | (4,759) |
| **Net income (loss)** | | **19,197** | **15,647** |
| (in euros) | | | |
| Earnings per share | note 28 | | |
| - basic | | 0.67 | 0.56 |
| - diluted | | 0.65 | 0.55 |
| Shares used in calculating earnings per share | | | |
| - basic | | 28,709,129 | 28,122,072 |
| - diluted | | 29,368,796 | 28,316,516 |

## STATEMENT OF COMPREHENSIVE INCOME

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| **Net income (loss)** | **19,197** | **15,647** |
| Currency translation adjustment | 61 | (292) |
| Effective portion of the change in fair value of interest-rate swaps | 837 | 1,033 |
| Tax effect on the comprehensive income items | (284) | (351) |
| **Comprehensive income (loss)** | **19,811** | **16,037** |

The notes on pages 108 through 166 are an integral part of the consolidated financial statements.

# STATEMENT OF CASH FLOWS
consolidated

| Twelve months ended (in thousands of euros) | | 2011 | 2010 |
|---|---|---|---|
| **I – OPERATING ACTIVITIES** | | | |
| Net income (loss) | | 19,197 | 15,647 |
| Depreciation and amortization | | 5,168 | 6,625 |
| Other income on investing activities | note 34 | – | (3,291) |
| Non-cash operating expenses | note 32 | (40) | (109) |
| Loss (profit) on sale of fixed assets | | (9) | 148 |
| Changes in deferred income taxes, net value | note 6 | 3,251 | 2,758 |
| Changes in inventories | | (1,646) | (1,557) |
| Changes in trade accounts receivable | | (1,301) | 139 |
| Changes in other current assets and liabilities | | (6,908) | 16,800 |
| **Net cash provided by (used in) operating activities** | note 33 | **17,712** | **37,160** |
| **II – INVESTING ACTIVITIES** | | | |
| Purchases of intangible assets | note 2 | (906) | (1,277) |
| Purchases of property, plant and equipment | note 3 | (2,837) | (1,071) |
| Proceeds from sales of intangible assets and property, plant and equipment | | 159 | 370 |
| Award received | note 34 | – | 9,346 |
| Purchases of financial assets | note 4 | (117) | (1,336) |
| Proceeds from sales of financial assets | note 4 | 183 | 1,218 |
| **Net cash provided by (used in) investing activities** | | **(3,518)** | **7,250** |
| **III – FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of ordinary shares | note 10 | 1,841 | 9 |
| Dividends paid | | (5,164) | – |
| Purchases of treasury shares | note 10 | (1,017) | (349) |
| Sales of treasury shares | note 10 | 1,049 | 1,478 |
| Proceeds from long term and short term borrowings | note 35 | – | 400 |
| Repayments of long term and short term borrowings | note 36 | (14,931) | (17,805) |
| **Net cash provided by (used in) financing activities** | | **(18,222)** | **(16,267)** |
| **Increase (decrease) in cash and cash equivalents** | | **(4,028)** | **28,143** |
| **Cash and cash equivalents at the opening** [1] | | **30,174** | **2,149** |
| Increase (decrease) in cash and cash equivalents | | (4,028) | 28,143 |
| Effect of changes in foreign exchange rates | | 174 | (118) |
| **Cash and cash equivalents at the closing** | | **26,320** | **30,174** |
| Free cash flow before non-recurring items | | 15,181 | 29,995 |
| Non-recurring items of the free cash flow | | (987) | 14,415 |
| **Free cash flow** | note 37 | **14,194** | **44,410** |
| Income tax paid (reimbursed) [2] | | 254 | 109 |
| Interest paid | | 1,487 | 2,777 |

(1) After deducting the amount of cash credit facilities used of €7,600,000 at December 31, 2009. Cash credit facilities have not been used since June 30, 2010.
(2) This amount does not include repayments of (French) research tax credit.

The notes on pages 108 through 166 are an integral part of the consolidated financial statements.

# STATEMENT OF CHANGES IN EQUITY
consolidated

| (in thousands of euros, except for par value per share expressed in euros) | | Share capital | | | Share premium | Treasury shares | Currency translation adjustment | Retained earnings and net income | Equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Number of shares | Par value per share | Total par value | | | | | |
| **Balances at January 1, 2010** | | **28,495,514** | **0.97** | **27,641** | **1,033** | **(1,439)** | **(8,585)** | **6,039** | **24,689** |
| Net income (loss) | | | | | | | | 15,647 | 15,647 |
| Other comprehensive income (loss) | note 11 | | | | | | (292) | 682 | 390 |
| **Comprehensive income (loss)** | | | | | | | **(292)** | **16,329** | **16,037** |
| Exercised stock options | note 10 | 3,500 | 0.97 | 3 | 5 | | | | 9 |
| Fair value of stock options | note 10 | | | | | | | 193 | 193 |
| Sale (purchase) of treasury shares | note 10 | | | | | 1,053 | | | 1,053 |
| Profit (loss) on treasury shares | note 10 | | | | | | | 51 | 51 |
| **Balances at December 31, 2010** | | **28,499,014** | **0.97** | **27,644** | **1,039** | **(386)** | **(8,877)** | **22,612** | **42,032** |
| Net income (loss) | | | | | | | | 19,197 | 19,197 |
| Other comprehensive income (loss) | note 11 | | | | | | 61 | 553 | 614 |
| **Comprehensive income (loss)** | | | | | | | **61** | **19,750** | **19,811** |
| Exercised stock options | note 10 | 404,596 | 0.97 | 392 | 1,449 | | | | 1,841 |
| Fair value of stock options | note 10 | | | | | | | 257 | 257 |
| Sale (purchase) of treasury shares | note 10 | | | | | (336) | | | (336) |
| Profit (loss) on treasury shares | note 10 | | | | | | | 245 | 245 |
| Dividends paid | | | | | | | | (5,164) | (5,164) |
| **Balances at December 31, 2011** | | **28,903,610** | **0.97** | **28,037** | **2,487** | **(722)** | **(8,816)** | **37,700** | **58,686** |

The notes on pages 108 through 166 are an integral part of the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Lectra Group, hereafter the Group, refers to Lectra S.A., hereafter the company, and its subsidiaries.
The Group's consolidated financial statements were drawn up by the Board of Directors on February 23, 2012 and will be proposed to the General Meeting of Shareholders for approval on April 27, 2012.

## BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed on NYSE Euronext (compartment C) since 1987. Lectra is the world leader in software, CAD/CAM equipment and related services dedicated to large-scale users of textiles, leather and industrial fabrics. Lectra addresses a broad array of major global markets, including fashion (apparel, accessories, and footwear), automotive (car seats and interiors, airbags), furniture and a wide variety of other industries, such as aeronautical and marine industries, wind turbines, etc.
The company's technology offering is geared to the specific needs of each market, enabling its customers to design, develop and manufacture their products (garments, seats, airbags, etc.). For the fashion industry, Lectra's software applications also enable the management of collections and cover the entire product lifecycle (Product Lifecycle Management, or PLM). Lectra forges long-term relationships with its customers and provides them with full-line, innovative solutions.
The Group's customers comprise large national and international corporations and medium-sized companies. Lectra helps them to overcome their major strategic challenges: e.g., cutting costs and boosting productivity; reducing time-to-market; dealing with globalization; developing secure electronic communications across the supply chain; enhancing quality; satisfying the demand for mass-customization; and monitoring and developing their corporate brands. The Group markets end-to-end solutions comprising the sale of software, CAD/CAM equipment and associated services (technical maintenance, support, training, consulting, sales of consumables and spare parts).
With the exception of a few products for which the company has formed long-term strategic partnerships, all Lectra software and equipment is designed and developed in-house. Equipment is assembled from sub-elements produced by an international network of subcontractors, and tested in the company's main industrial facilities in Bordeaux–Cestas (France) where most of Lectra's R&D is performed.
Lectra's strength lies in the skills and experience of its nearly 1,350 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of their customers' businesses.

The Group has been present worldwide since the mid-1980s. Based in France, the company serves 23,000 customers in more than 100 countries through its extensive network of 31 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivalled network, Lectra generated 90% of its revenues directly in 2011. Its five International Call Centers, at Bordeaux–Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (U.S.A.) and Shanghai (China) cover Europe, North America and Asia. All of the company's technologies are showcased in its International Advanced Technology & Conference Centers at Bordeaux–Cestas (France) for Europe and international visitors, and its two International Advanced Technology Centers at Atlanta (U.S.A.) for North and South America, and Shanghai (China) for Asia and the Pacific. Lectra is geographically close to its customers wherever they are, with nearly 740 employees dedicated to marketing, sales and services. It employs 220 engineers dedicated to R&D, and 150 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

## BUSINESS MODEL

Lectra's business model comprises two types of revenue streams:
– revenues from new systems sales (new software licenses and CAD/CAM equipment, and related services), the company's growth driver;
– recurring revenues, consisting partly of recurring contracts (e.g., software evolution, CAD/CAM equipment maintenance and on-line support contracts), and partly of other statistically recurring revenues generated by the installed base (sales of spare parts and consumables, and per-call maintenance and support interventions). These recurring revenues are a key factor in the company's stability, acting as a cushion in periods of slow overall economic growth.
In addition, the business model is geared to generating free cash flow in excess of net income assuming utilization or receipt of the annual research tax credit applicable in France.

## ACCOUNTING RULES AND METHODS

### Current Accounting Standards and Interpretations

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:
*http://ec.europa.eu/internal_market/accounting/ias/index_en.htm*
The consolidated financial statements at December 31, 2011 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2010 financial statements. They have been prepared under the responsibility of the Board of Directors at its meeting of February 23, 2012 and audited by the Statutory Auditors.
The standards and interpretations adopted by the European Union as of January 1, 2011 had no impact on the Group's financial statements, i.e.:
– IAS 24 – Related party disclosures;
– IAS 32 amendment – Classification of rights issues;
– IFRS 1 amendment – Limited exemption from comparative IFRS 7 disclosures for first-time adopters;
– Annual improvements to IFRS 2010;
– IFRIC 19 – Extinguishing financial liabilities with equity instruments;
– IFRIC 14 amendment – Prepayments of a minimum funding requirement.
The Group has not adopted, before they became mandatory, any standards, amendments or interpretations whose application is not required for fiscal years starting January 1, 2011.

### Consolidation Method

The consolidated financial statements include the accounts of the parent company and the subsidiaries the Group controls. A company is deemed to be controlled when the Group has the power to determine, either directly or indirectly, the financial and operating policies of the company such as to benefit from the said company's operations.
Subsidiaries are fully consolidated from the date of transfer of control over them to the Group. They are removed from consolidation from the date at which it ceases to control them or at which these entities are liquidated.
The parent company holds more than 99% of the voting rights of the fully-consolidated companies. They are designated FC (fully consolidated) in the schedule of consolidated companies below. Certain sales and service subsidiaries not material to the Group, either individually or in the aggregate, are not consolidated. Most of these subsidiaries' sales activity is billed directly by the parent company Lectra SA. They are designated NC in the schedule.
Companies are consolidated on the basis of company documents and financial statements drawn up in each country and restated in accordance with the aforementioned accounting rules and methods.
All intra-Group balances and transactions, together with unrealized profits arising from these transactions, are eliminated upon consolidation.
All consolidated companies close their annual financial statements at December 31.

## Changes in Scope of Consolidation

At December 31, 2011, the Group's scope of consolidation comprised Lectra S.A. together with 26 fully-consolidated companies.

| | | | % of ownership and control | | Consolidation method [1] | |
|---|---|---|---|---|---|---|
| Company | City | Country | 2011 | 2010 | 2011 | 2010 |
| Parent company | | | | | | |
| Lectra SA | Cestas | France | | | FC | FC |
| Subsidiaries | | | | | | |
| Lectra Systems Pty Ltd. | Durban | South Africa | 100.0 | 100.0 | FC | FC |
| Lectra Deutschland GmbH | Ismaning | Germany | 99.9 | 99.9 | FC | FC |
| Humantec Industriesysteme GmbH | Huisheim | Germany | 100.0 | 100.0 | FC | FC |
| Lectra Australia Pty Ltd. | Melbourne | Australia | 100.0 | 100.0 | FC | FC |
| Lectra Benelux NV | Gent | Belgium | 99.9 | 99.9 | FC | FC |
| Lectra Brasil Ltda. | São Paulo | Brazil | 100.0 | 100.0 | FC | FC |
| Lectra Canada Inc. | Montreal | Canada | 100.0 | 100.0 | FC | FC |
| Lectra Systems (Shanghai) Co. Ltd. | Shanghai | China | 100.0 | 100.0 | FC | FC |
| Lectra Hong Kong Ltd. | Hong Kong | China | 99.9 | 99.9 | FC | FC |
| Lectra Danmark A/S | Ikast | Denmark | 100.0 | 100.0 | FC | FC |
| Lectra Sistemas Española SA | Madrid | Spain | 100.0 | 100.0 | FC | FC |
| Lectra Baltic Oü | Talinn | Estonia | 100.0 | 100.0 | FC | FC |
| Lectra USA Inc. | Atlanta | USA | 100.0 | 100.0 | FC | FC |
| Lectra Suomi Oy | Helsinki | Finland | 100.0 | 100.0 | FC | FC |
| Lectra Hellas EPE | Athens | Greece | 99.9 | 99.9 | FC | FC |
| Lectra Technologies India Private Ltd. | Bangalore | India | 100.0 | 100.0 | FC | FC |
| Lectra Italia SpA | Milan | Italy | 100.0 | 100.0 | FC | FC |
| Lectra Japan Ltd. | Osaka | Japan | 100.0 | 100.0 | FC | FC |
| Lectra Systèmes SA de CV | Mexico | Mexico | 100.0 | 100.0 | FC | FC |
| Lectra Portugal Lda. | Matosinhos | Portugal | 99.9 | 99.9 | FC | FC |
| Lectra UK Ltd. | Shipley | United Kingdom | 99.9 | 99.9 | FC | FC |
| Lectra Russia OOO | Moscow | Russia | 100.0 | - | FC | - |
| Lectra Sverige AB | Borås | Sweden | 100.0 | 100.0 | FC | FC |
| Lectra Taiwan Co. Ltd. | Taipei | Taiwan | 100.0 | 100.0 | FC | FC |
| Lectra Systèmes Tunisie SA | Tunis | Tunisia | 99.8 | 99.8 | FC | FC |
| Lectra Systèmes CAD - CAM AS | Istanbul | Turkey | 99.0 | 99.0 | FC | FC |
| Lectra Chile SA | Santiago | Chile | 99.9 | 99.9 | NC | NC |
| Lectra Israel Ltd. | Natanya | Israel | 100.0 | 100.0 | NC | NC |
| Lectra Maroc Sarl | Casablanca | Morocco | 99.4 | 99.4 | NC | NC |
| Lectra Philippines Inc. | Manila | Philippines | 99.8 | 99.8 | NC | NC |
| Lectra Singapore Pte Ltd. | Singapore | Singapore | 100.0 | 100.0 | NC | NC |

(1) FC: Fully consolidated - NC: Non-consolidated.

A subsidiary, Lectra Russia, was formed in October 2011 in Russia and consolidated as at December 31, 2011. The consolidation of Lectra Russia has had no impact on the Group financial statements as at December 31, 2011.
There were no other changes in the scope of consolidation in 2011.
In view of the parent company's percentage of interest in its consolidated subsidiaries, minority interests are immaterial and are therefore not shown in the financial statements.

## CURRENT ASSETS AND LIABILITIES

Group consolidated financial statements are prepared on a historical cost basis with the exception of the assets and liabilities listed below :
– cash equivalents, marked to market in the income statement;
– derivative financial instruments marked to market. The Group uses these instruments to hedge its foreign exchange risks and recognizes them at fair value in the income statement, and to hedge interest-rate risk, which is recognized at fair value in shareholders' equity (see section on "Risk Hedging Policy").
Current assets comprise assets linked with the normal operating cycle of the Group, assets held with a view to disposal within the next 12 months after the close of the financial year, together with cash and cash equivalents. All other assets are non-current. Current liabilities comprise debts maturing in the course of the normal operating cycle of the Group or within the next 12 months after the close of the financial year.

## GOODWILL

Goodwill is the difference between purchase price (including a best estimate of earn-outs stipulated in the purchase agreement, if any) and fair value of the purchaser's share in the acquired identifiable assets, liabilities and contingent liabilities.
Goodwill recognized in a foreign currency is translated at the year-end exchange rate.
Each goodwill is allocated to a Cash Generating Unit (CGU) defined as being a sales subsidiary or group of more than one sales subsidiaries, being sufficiently autonomous to generate cash inflows independently.
In taking into account expected future revenue streams, goodwill is tested for possible impairment loss at each balance sheet date.

## OTHER INTANGIBLE ASSETS

Intangible assets are carried at their purchase price less cumulative depreciation and impairment, if any. Depreciation is charged on a straight-line basis depending on the estimated useful life of the intangible asset.

### Management Information Software

This item contains only software utilized for internal purposes.
The new information system progressively deployed in the Group subsidiaries since January 1, 2007 is depreciated on a straight-line basis over eight years, corresponding to their useful life as determined by the Group for this intangible asset. Activation of costs relating to this project has been made possible by the fact that the project's technical feasibility has been consistently demonstrated and it has been established as probable that this fixed asset will generate future benefits for the Group.
Other purchased management information software packages are amortized on a straight-line basis over three years.
In addition to expenses incurred in the acquisition of software licenses, the Group also activates direct software development and configuration costs, comprising personnel costs for personnel involved in development of the software and external expenses directly relating to these items.

### Patents and Trademarks

Patents, trademarks and associated costs are amortized on a straight-line basis over three to ten years from the date of registration. The amortization period reflects the rate of consumption by the company of the economic benefits generated by the asset. The Group is not dependent on any patents or licenses that it does not own.

In terms of intellectual property, no patents or other industrial property rights belonging to the Group are currently under license to third parties.
The rights held by the Group, notably with regard to software specific to its business as a software developer and publisher, are used under license by its customers within the framework of sales activity.
The Group does not activate any internally-generated expense relating to patents and trademarks.

### Other

Other intangible assets are amortized on a straight-line basis over two to five years.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less accumulated depreciation and impairment, if any.
When a tangible asset comprises significant components with different useful lives, the latter are analyzed separately. Consequently, costs incurred in replacing or renewing a component of a tangible asset are booked as a distinct asset. The carrying value of the component replaced is written-off. Moreover, the Group considers that there is no residual value on its assets. At each closing date, the useful life of assets is reviewed and adjusted as required.
Subsequent expenditures relating to a tangible asset are capitalized if they increase the future economic benefits of the specific asset to which they are attached. All other costs are expensed directly at the time they are incurred. Financial expense is not included in the cost of acquisition of tangible assets. Investment grants received are deducted from the value of tangible assets. Depreciation is computed on this net amount.
Losses or gains on disposals of assets are recognized in the income statement under caption "Selling, general and administrative expenses".

Depreciation is computed on the straight-line method over their estimated useful lives as follows:
– buildings and building main structures: 20–35 years;
– secondary structures and building installations: 15 years;
– fixtures and installations: 5–10 years;
– land arrangements: 5–10 years;
– technical installations, equipment and tools: 4–10 years;
– office equipment and computers: 3–5 years;
– office furniture: 5–10 years.

## FIXED ASSET IMPAIRMENT–IMPAIRMENT TESTS

When events or changes in the market environment, or internal factors, indicate a potential impairment of value of goodwill, other intangible assets or property, plant and equipment, these are subjected to detailed scrutiny. In the case of goodwill, impairment tests are carried out systematically at least once a year.

### Goodwill

Goodwill is tested for impairment by comparing its carrying value with its recoverable amount, which is defined as the higher of the asset's fair value less costs to sell and value in use determined as the present value of future cash flows attached to them, excluding interest and tax. The results utilized are derived from the Group's three-year plan. Beyond the time frame of the three-year plan, cash flows are projected to infinity, the assumed growth rate being dependent on the growth potential of the markets and/or products concerned by the impairment test. The discount rate is computed under the Weighted Average Cost of Capital (WACC) method, the cost of capital being determined by applying the Capital Asset Pricing Model (CAPM). If the impairment test reveals an impairment of value relative to the carrying value, an irreversible impairment loss is recognized to reduce the carrying value of the goodwill to its recoverable amount. This charge, if any, is recognized under "Goodwill impairment" in the income statement.

### Other Fixed Assets

Other intangible assets and property, plant and equiment are tested by comparing the carrying value of each relevant group of assets (which may be an isolated asset or a cash-generating unit) with its recoverable amount. If the latter is lower than the carrying value, an impairment charge equal to the difference between these two amounts is recognized. In the case of Lectra's new information system, impairment testing consists in periodically verifying that the initial assumptions regarding the useful life and functions of the system remain valid. The base and the schedule of amortization / depreciation of the assets concerned are reduced if a loss is recognized, the resulting charge being recorded as an amortization / depreciation charge under "Cost of goods sold", or "Selling, general and administrative expenses" in the income statement depending on the nature and use of the assets concerned.

## NON-CURRENT FINANCIAL ASSETS

This item mainly comprises investments in subsidiaries and receivables relating to financial investments in unconsolidated companies.
Investments in subsidiaries are classified with available for sale securities.
Non-current financial assets are tested for impairment annually on the basis of the net asset value of the related companies.

## DEFERRED INCOME TAX

Deferred income tax is accounted for using the liability method on temporary differences arising between the book value and tax value of assets and liabilities shown in the statement of financial position. The same is true for tax loss carry-forwards. Deferred taxes are calculated at the future tax rates enacted or substantially enacted at the fiscal year closing date. For a given entity, assets and liabilities are netted where taxes are levied by the same tax authority, and where permitted by the local tax authorities. Deferred tax assets are recognized where their future utilization is deemed probable in light of expected future taxable profits.

## INVENTORIES

Inventories of raw materials are valued at the lower of purchase cost (based on weighted-average cost, including related costs) and their net realizable value. Finished goods and works-in-progress are valued at the lower of standard industrial cost (adjusted at year-end on an actual cost basis) and their net realizable value.
Net realizable value is the estimated selling price in the normal course of business, less the estimated cost of completion or upgrading of the product and unavoidable selling costs.
Inventory cost does not include interest expense.
A write-down is recorded if net realizable value is lower than the book value.
Write-downs on inventories of spare parts and consumables are calculated by comparing book value and probable net realizable value considering a specific analysis of the rotation and obsolescence of inventory items, taking into account the utilization of items for maintenance and after-sales services activities, and changes in the range of products marketed.

## TRADE ACCOUNTS RECEIVABLE

Accounts receivable are originally accounted for in the statement of financial position at their fair value, and thereafter at their amortized cost, which generally corresponds to their nominal value. Impairment is recorded on the basis of the risk of non-collectibility of the receivable, measured on a case-by-case basis in light of how long they are overdue, the results of reminders sent out, the local payment practices, and the risks specific to each country.
Sales in those countries presenting a high degree of political or economic risk are generally secured by letters of credit or bank guarantees.
Owing to the very short collection delays, trade accounts receivable are not discounted.

## CASH AND CASH EQUIVALENTS

Cash (as shown in the cash flow statement) is defined as the sum of cash and cash equivalents, less bank overdrafts where applicable. Cash equivalents comprise

either investments in money-market funds recorded at market value at year-end, convertible at any time into a known amount of cash, or negotiable certificates of deposit issued by the company's banks. Interest-bearing sight accounts opened in the company's banks are treated as cash. All these short-term holdings are available immediately and the equivalent cash amount is either known or subject to minimal uncertainty.
Net financial debt (as shown in note 13.4) is defined as the amount of "Cash and cash equivalents" less borrowings (as shown in note 13.2) when this difference is negative. When this difference is positive, the result corresponds to a net cash.
Cash equivalents are recognized at their fair value; changes in fair value are recognized in the income statement.

## CAPITAL MANAGEMENT POLICY

In managing its capital, the Group seeks to achieve the best possible return on capital employed and to comply with the gearing ratio (net financial debt to shareholders' equity) attached to its medium-term bank loan (see note 13.2).
The liquidity of Lectra's shares on the stock market is ensured by means of a Liquidity Agreement with SG Securities (Société Générale Group) (see note 10.2).
The payment of dividends is an important instrument in the Group's capital management policy, the aim being to compensate shareholders adequately as soon as this is justified by the Group's financial situation while preserving the necessary cash to fund the Group's future development.

## STOCK OPTIONS

The company has granted stock options to Group employees and managers. All plans are issued at an exercise price equal or greater than the first average stock market price for the 20 trading days prior to granting.
Under the regulations governing the company's stock option plans, which have been accepted by all of their beneficiaries, the Group is not exposed to the risk of liability for payment of French social security charges on capital gains arising from sales of shares within four years of the granting of options.
The application of IFRS 2 has resulted in the recognition of a charge corresponding to the fair value of the advantage granted to beneficiaries. This charge is recognized in personnel costs and retained earnings.
It is measured using the Black & Scholes model and is deferred prorata temporis over the stock options' vesting period.

## BORROWINGS AND FINANCIAL DEBT

The non-current portion of borrowings and financial debt comprises the portion due in more than one year of:
– the interest-bearing bank loans;
– non-interest bearing reimbursable advances corresponding to R&D grants.
The current portion of borrowings and financial debt comprises:
– the portion of bank loans, reimbursable advances and other borrowings and financial debt due in less than one year;
– cash facilities, where applicable.
Borrowings and financial debts are recognized initially at fair value.
At balance sheet date, borrowings and financial debt are stated at amortized cost using the effective interest rate method, defined as the rate whereby cash received equals the total cash flows relating to the servicing of the borrowing. Interest expenses on the bank loans and on the utilization of cash credit facilities are recognized as financial expenses in the income statement.

## RETIREMENT BENEFIT OBLIGATIONS

The Group is subject to a variety of deferred employee benefit plans, depending on the subsidiary concerned. The only deferred employee liabilities are retirement benefit obligations.

### Defined Contributions Plans

These refer to post employment benefits plans under which, for certain categories of employee, the Group pays defined contributions to an outside insurance company or pension fund. Contributions are paid in exchange for

services rendered by employees during the period. They are expensed as incurred, according to the same logic as wages and salaries. Defined contributions plans do not create future liabilities for the Group and hence do not require recognition of provisions.
Most of the defined contributions plans to which the company and its subsidiaries contribute are additional to the employees' legal retirement plans. In the case of the latter, the company and its subsidiaries contribute directly to a social security fund, their contributions being charged to income according to the same logic as wages and salaries.

### Defined Benefit Plans

These refer to post employment benefits payable plans that guarantee contractual additional income for certain categories of employee (in some cases these plans are governed by specific industrywide agreements). For the Group, these plans only cover lump-sum termination payments solely as required by legislation or as defined by the relevant industrywide agreement.
The guaranteed additional income represents a future contribution for which a liability is estimated.
This liability is calculated by estimating the benefits to which employees will be entitled having regard to projected end-of-career salaries.
Benefits are reviewed in order to determine the net present value of the liability in respect of defined benefits in accordance with the principles set forth in IAS 19.
Actuarial assumptions notably include a rate of salary increase, a discount rate (this corresponds to the average annual yield on bonds with maturities approximately equal to those of the Group's obligations) an average rate of social charges and a turnover rate, in accordance with local regulations where appropriate, based on observed historical data.
The Group has opted to record actuarial differences in full in the income statement. When plan's terms are modified, the portion relating to the increase in benefits pertaining to past services performed by personnel is booked as a charge and accounted for on a straight-line basis over the average residual vesting period of the corresponding entitlements. To the extent that rights vest immediately, the cost is directly expensed.

The total charge represented by all of the foregoing is recognized in personnel costs in the income statement.

## PROVISIONS FOR OTHER LIABILITIES AND CHARGES

All known risks at the date of Board of Directors' meeting are reviewed in detail and a provision is recognized if an obligation exists, if the costs entailed to settle this obligation are probable or certain, and if they can be measured reliably.
In view of the short-term nature of the risks covered by these provisions, the discounting impact is immaterial and therefore not recognized.
At the time of the effective payment, the provision is deducted from the corresponding expenses.

### Provisions for Warranties

A provision for warranties covers, on the basis of historical data, probable costs arising from warranties granted by the Group to its customers at the time of the sale of CAD/CAM equipment, for replacement of parts, technicians' travel and labor costs. This provision is recorded at the time the sale generating a contractual obligation of warranty is booked by the company.

## TRADE ACCOUNTS PAYABLES

Trade acccounts payables refer to obligations to pay for goods or services acquired in the ordinary course of business. They are classified in current liabilities when payment is due in less than twelve months, or in non-current liabilities when payment is due in more than one year.

## REVENUES

Revenues from sales of hardware are recognized when the significant risks and benefits relating to ownership are transferred to the purchaser.
For hardware, or for software in cases where the company also sells the computer equipment on which the software is installed, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.

For software not sold with the hardware on which it is installed, these conditions are generally fulfilled at the time of installation of the software on the customer's computer (either by CD-ROM or downloading).
Revenues from software evolution contracts and recurring services contracts, billed in advance, are booked monthly over the duration of the contracts.
Revenues from the billing of services not covered by recurring contracts are recognized at the time of performance of the service or, where appropriate, on a percentage of completion basis.

## COST OF GOODS SOLD

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight-out costs on equipments sold, and a share of depreciation of the manufacturing facilities.
Cost of goods sold does not include salaries and expenses associated with service revenues, which are included under "Selling, General and Administrative Expenses".

## RESEARCH AND DEVELOPMENT

The technical feasibility of software and hardware developed by the Group is generally not established until a prototype has been produced or until feedback is received from its pilot sites, conditioning their commercialization. Consequently, the technical and economic criteria that render the recognition of development costs in assets at the moment they occur are not met, and these, together with research costs, are therefore expensed in the year in which they are incurred.
The (French) research tax credit (*crédit d'impôt recherche*) is deducted from R&D expenses.

## GOVERNMENT GRANTS

Government investment grants are deducted from the cost of the fixed assets in respect of which they were received. Consequently they are recognized in the income statement over the period of consumption of the economic benefits expected to derive from the corresponding asset.
Operating grants are recognized in deferred income at the time of receipt, then deducted from their associated charges in the income statement. This applies to subsidies received to finance research and development projects.
The Group receives interest-free reimbursable advances which are recognized at their amortized cost. Benefits arising from the non-remuneration of these advances are initially recognized as operating grants in deferred income, then deducted from R&D expenses in the income statement.

## INCOME FROM OPERATIONS BEFORE NON-RECURRING ITEMS

The Group tracks its operating performance by means of an intermediate balance referred to as income from operations before non-recurring items. This financial metric reflects income from operations less non-recurring income and plus non-recurring expenses, as set forth in CNC (French National Accouting Council) recommendation 2009-R.03.
Non-recurring items excluded from income from operations before non-recurring items reflect the impact on the financial statements of events that are either unaccustomed, abnormal or infrequent. There are very few of these, their amounts are significant, and they are described in the corresponding note to the financial statements.

## BASIC AND DILUTED EARNINGS PER SHARE

Basic net earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the fiscal year, excluding the weighted average number of treasury shares.
Diluted net earnings per share are calculated by dividing net income by the weighted-average number of shares adjusted for the dilutive effect of stock options outstanding during the fiscal year and excluding the weighted average number of treasury shares held solely under the Liquidity Agreement.
The dilutive effect of stock options is computed in accordance with the share repurchase method provided in the revised version of IAS 33. The assumed proceeds from exercise of stock options are regarded as having been used to repurchase shares at the average market price during the period. The number of shares thus obtained is deducted from the total number of shares resulting from the exercise of stock options.
Only options with an exercise price below the said average share price are included in the calculation of the number of shares representing the diluted capital.

## OPERATING SEGMENTS

Operating segment reporting is based directly on the company's performance tracking and review systems. The operating segments disclosed in note 31 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the company's "chief operating decision maker". Operating segments refer to the major marketing regions in the sense of the regions whose performance is reviewed by the Executive Committee.

The regions concerned are: the Americas, Europe, Asia-Pacific, and the Rest of the World, where the company operates chiefly in North Africa, South Africa, Turkey, Israel, and the Middle East. These regions are involved in sales and the provision of services to their clients. They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, finance, legal affairs, human resources, information systems, etc. All of these cross-divisional activities are reported as an additional operating segment referred to here as the "Corporate" segment.
Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external clients; all inter-segment billings are excluded from this item. The gross margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include value added supplied by the Corporate segment. Consequently, for products or services supplied in full or in part by the Corporate segment, a percentage of consolidated gross margin is retained in the income computed for the Corporate segment sufficient to cover its costs. The Corporate segment's general overheads, most of which are fixed, its margin and consequently its income from operations therefore depend mainly on the volume of business generated by marketing regions.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the financial statements in accordance with IFRS demands that certain critical accounting estimates be made. Management is also required to exercise its judgment in applying the Group's accounting policies. Although such estimates are made in a particularly uncertain environment, their relevance is supported by the Group's business model features. The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, relates to goodwill impairment (see note 1) and deferred taxation (see note 6.3).

## TRANSLATION METHODS

### Translation of Financial Statements of Foreign Subsidiaries

Most subsidiaries' functional currency is the local currency, which corresponds to the currency in which the majority of their transactions are denominated.
Accounts of foreign companies are translated as follows:
– assets and liabilities are translated at the official year-end closing rates;
– reserves and retained earnings are translated at historical rates;
– income statement items are translated at the average monthly exchange rates for the year for revenues and cost of products and services sold, and at the annual average rate for all other income statement items other than in the case of material transactions;
– items in the cash flow statement are translated at the annual average exchange rate. Thus, movements in short-term assets and liabilities are not directly comparable with the corresponding movements in the statement of financial position, due to the currency translation impact, which is shown under a separate heading in the cash flow statement: "Effect of changes in foreign exchange rates";
– gains or losses arising from the translation of the net assets of foreign consolidated subsidiaries, and those derived from the use of average exchange rates to determine income or loss, are recognized in "Currency translation adjustment" in shareholders' equity and therefore have no impact on earnings, unless all or part of the corresponding investments are divested. They are adjusted to reflect long-term unrealized gains or losses on internal Group positions.

### Translation of Items from the Statement of Financial Position Denominated in Foreign Currencies

*Third Party Receivables and Payables*
Foreign currency receivables and payables are booked at the average exchange rate for the month in which they are recorded, and may be hedged.
Receivables and payables denominated in foreign currencies are translated at the December 31 exchange rate.
Unrealized differences arising from the translation of foreign currencies appear in the income statement.
Where a currency has been hedged forward, the translation adjustment reflected on the income statement is offset by the change in fair value of the hedging instrument.

*Inter-Company Receivables and Payables*
Translation differences on short-term receivables and payables are included in net income using the same procedure as for third party receivables and payables.
Unrealized translation gains or losses on long-term assets and liabilities, whose settlement is neither scheduled nor probable in the foreseeable future, are recorded as a component of shareholders' equity under the heading "Currency translation adjustment" and have no impact on net income, in compliance with the paragraph "Net Investment in a Foreign Operation" of IAS 21.

## EXCHANGE RATE TABLE FOR MAIN CURRENCIES

| (equivalent value for one euro) | 2011 | 2010 |
|---|---|---|
| **U.S. dollar** | | |
| Annual average rate | 1.39 | 1.33 |
| Closing rate | 1.29 | 1.34 |
| **Japanese yen** | | |
| Annual average rate | 111.02 | 116.46 |
| Closing rate | 100.20 | 108.65 |
| **British pound** | | |
| Annual average rate | 0.87 | 0.86 |
| Closing rate | 0.84 | 0.86 |
| **Chinese yuan** | | |
| Annual average rate | 9.00 | 8.98 |
| Closing rate | 8.16 | 8.82 |

## RISK HEDGING POLICY

In addition to the discussion of risks contained in these notes to the consolidated financial statements, the Group's risk management policy is mainly discussed in the Management Discussion, in chapter 4, Risk Factors–Management of Risks, and in chapter 14, Business Trends and Outlook, to which readers are referred.

### Specific Foreign Exchange Risks – Derivative Financial Instruments

Exchange rate fluctuations impact the Group in two ways:

*Competitive Impact*

Lectra sells its products and services in global markets, competing primarily with its main competitor, a US company that manufactures its equipment in China, as do its Asian competitors. As a result, prices are generally dependent on the US dollar but also on the Chinese yuan.

*Translation Impact*

In the income statement, as accounts are consolidated in euros, revenues, gross profit, and net income of a subsidiary conducting its business in a foreign currency are mechanically affected by exchange rate fluctuations when translated into euros.

On balance sheet positions, this refers primarily to foreign currency accounts receivable, in particular to those between the parent company Lectra SA and its subsidiaries, and it corresponds to the variation between exchange rates at collection date and those at billing date. This impact is recognized in "Foreign exchange income/loss" in the income statement.

Currency risk is borne by the parent company. The Group seeks to protect all of its foreign currency receivables and debts as well as future cash flows against currency risk on economically reasonable terms. Hedging decisions take into account currency risks and trends where these are likely to significantly impact the Group's financial condition and competitive situation. The bulk of foreign currency risks concerns the U.S. dollar.

The Group's statement of financial position exposure is monitored in real time, using the following financial instruments for this purpose:

– forward currency contracts to hedge receivables and debts;

– forward currency contracts and currency options to hedge future flows of sales and purchases when there is a strong probability that they will take place.

To hedge its balance sheet positions, the Group uses financial instruments to hedge its net foreign currency positions (receivables and debts). Consequently, all changes in the value of these instruments offset foreign exchange gains and losses on the remeasurement of these receivables and debts. However, these hedges are not treated as such within the meaning of IAS 39.

Derivative financial instruments to hedge future flows of funds are initially booked at fair value. Thereafter they are marked to market at the balance sheet date. Resulting profits or losses are recognized in shareholders' equity or in the income statement, depending upon whether the hedge (or the portion of the hedge concerned) was deemed to be effective or not, as defined by IAS 39.

In the event that an appreciation was initially recognized in shareholders' equity, the accumulated profits or losses are then included in income for the period in which the initially planned transaction actually takes place.

### Interest Rate Risk

The Group manages its financing costs by limiting the impact of interest-rate variations on the income statement. The Group has no significant interest-rate risk exposure at present.
Indeed, just €2.9 million (17% of total debt) was exposed to interest-rate risk at December 31, 2011, the remainder of debt being hedged by interest-rate swaps or being interest free.
Sensitivity to interest rate fluctuations is discussed in note 13.5.
Finally, the Group follows a conservative policy in short-term investing its cash surpluses, placing them only in money market mutual funds classified as "euro money market funds" by the *Autorité des Marchés Financiers*, in negotiable certificates of deposit issued by the company's banks, or in interest-bearing sight accounts.

### Client dependency risk

There is no material risk of dependence on any particular customer or group of customers, as no individual customer represented more than 6% of consolidated revenues in 2011 as was the case in earlier years, and the 10 largest customers of the company represented less than 20% revenues cumulatively, and the top 20 customers less than 25%.

### Credit Risks

The Group is exposed to credit risks in the event of default by a counterparty. This risk is heightened in the context of the global economic crisis. The Group pays close attention to the security of payment for the systems and services delivered to its customers. It notably manages this risk via a range of customer risk management procedures. In particular, these procedures entail preventively analyzing its customers' solvency and provide for the strict and systematic application of a wide array of measures for dealing with customers in arrears.

### Liquidity Risk

The main indicator monitored by the Group in order to measure a possible liquidity risk is the cumulative unused confirmed credit lines granted to the Group and available cash (see note 13.4). This indicator is compared against cash forecasts over a six-month time horizon. The risk that the Group may have to contend with a short-term cash shortage is very low. Available cash is held exclusively in interest-bearing sight accounts and negotiable cash deposits issued by the company's banks. It represents a comfortable and sufficient liquidity reserve for the Group. Thanks to its structurally near-zero working capital requirement, any cash flows generated by the Group help to bolster its liquidity.

## POST-CLOSING EVENTS

No significant event has occurred.

### Dividend

The Board of Directors has proposed to the Shareholders' Meeting on April 27, 2012 to declare a dividend of €0.22 per share in 2012 in respect of fiscal 2011.
The company declared a dividend of €0.18 per share in 2011, in respect of fiscal 2010.

## NOTE 1 GOODWILL

No acquisition was made in fiscal years 2011 and 2010.
All acquisitions have been paid for in full, and no further earn-out is due on these transactions.
In 2010, receipt of €15,090,000 following the award rendered by the International Arbitral Tribunal against Induyco had resulted in a €6,055,000 reduction in goodwill initially recognized on Investronica Sistemas at the time of the acquisition of this company in 2004 (see note 23).
In 2011, the only material changes concerned currency translation adjustment.

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| **Book value at January 1** | **30,999** | **36,401** |
| Goodwill adjustment | - | (6,055) |
| Exchange rate differences | 310 | 653 |
| **Book value at December 31** | **31,309** | **30,999** |

Cash Generating Units (CGU) have been defined as a sales subsidiary or group of more than one sales subsidiaries sharing common resources; these CGUs are sufficiently autonomous to generate cash inflows independently. Operating segments as defined in note 31 correspond to groups of these CGUs.
Goodwill shown in the statement of financial position was subjected to impairment testing in December 2011. The projections used are based on the 2012-2014 plan for each CGU based on forecast trends in each market concerned and on a projection to infinity using a 2% growth rate assumption beyond 2014.
Future flows after tax are discounted using the weighted average cost of capital. The discount rates adopted differ depending on the CGU to allow for exposure to local economic environments. They are broken down as follows:
– The cost of capital is determined on the basis of an estimated risk free rate for each CGU plus a market risk premium of 5% adjusted for the sector's beta;
– A specific risk premium has been computed for each CGU. This varies between 0.5% and 2% depending on the estimated risk attaching to fulfillment of the 2012-2014 plan;
– The cost of debt is determined on the basis of average market conditions for the fourth quarter of 2011 (3-month Euribor) plus the margin applied by the banks.
The resulting estimates of the value in use of goodwill components have not been revised on the occasion of the year-end balance sheet closing.

As of December 31, 2011, goodwill and discount rates used in impairment testing were allocated as follows among the different CGUs:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Discount rate | Goodwill | Discount rate | Goodwill |
| Italy | 9.4% | 12,004 | 8.5% | 12,004 |
| France | 8.5% | 2,324 | 8.1% | 2,324 |
| Germany | 8.0% | 4,631 | 8.5% | 4,631 |
| Northern Europe | 8.5% | 1,590 | 8.1% | 1,590 |
| Great Britain | 8.4% | 1,287 | 8.1% | 1,249 |
| Spain | 9.4% | 702 | 8.1% | 702 |
| Portugal | 9.4% | 220 | 8.1% | 220 |
| **Total Europe** | | **22,758** | | **22,720** |
| North America | 7.9% | 6,284 | 8.5% | 6,085 |
| South America | 13.3% | 417 | 7.6% | 406 |
| **Total Americas** | | **6,701** | | **6,491** |
| Japan | 6.4% | 564 | 8.5% | 520 |
| Greater China | 9.0% | 594 | 8.5% | 576 |
| Other Asian countries | 9.0% | 324 | 8.5% | 324 |
| **Total Asia** | | **1,482** | | **1,420** |
| **Other countries** | 8.5% | **368** | 8.1% | **368** |
| **Total** | | **31,309** | | **30,999** |

An identical valuation of the CGUs would result from application of a pre-tax discount rate to pre-tax cash flows.
The following sensitivity calculations have been performed:
– A two percentage points rise in the discount rate;
– A one percentage point decline relative to the revenue growth assumptions for each CGU used in framing the 2012-2014 plan;
– A one percentage point decline in the long-term growth rate to infinity (from 2% to 1%).
None of these sensitivity calculations would entail any impairment of goodwill.

## COMMITMENTS RECEIVED

Within the framework of the agreements relating to the acquisition of Investronica and Lacent in 2004 and Humantec in 2005, the company has obtained representations and warranties from the vendor shareholders concerning certain assets and liabilities in the statement of financial position as well as all potential litigation arising in respect of events predating the respective acquisitions. These guarantees have now expired, with the exception of liabilities eligible for compensation notified to the vendor shareholders prior to their expiration dates or that remain in force beyond the contractual period stipulated in the purchase contract and not yet time-barred at the date of this report.

## NOTE 2 OTHER INTANGIBLE ASSETS

| (in thousands of euros)<br>2010 | Management information software | Patents and trademarks | Other | Total |
|---|---|---|---|---|
| **Gross value at January 1, 2010** | **20,875** | **2,191** | **6,329** | **29,395** |
| External purchases | 643 | 55 | - | 698 |
| Internal developments | 385 | - | - | 385 |
| Write-offs and disposals | (136) | - | (1) | (137) |
| Transfers | 420 | - | (420) | - |
| Exchange rate differences | 90 | - | 3 | 93 |
| **Gross value at December 31, 2010** | **22,277** | **2,246** | **5,911** | **30,434** |
| **Amortization at December 31, 2010** | **(17,118)** | **(1,953)** | **(5,911)** | **(24,982)** |
| **Net value at December 31, 2010** | **5,159** | **293** | **-** | **5,452** |

| (in thousands of euros)<br>2011 | Management information software | Patents and trademarks | Other | Total |
|---|---|---|---|---|
| **Gross value at January 1, 2011** | **22,277** | **2,246** | **5,911** | **30,434** |
| External purchases | 465 | 56 | 58 | 579 |
| Internal developments | 328 | - | - | 328 |
| Write-offs and disposals | (348) | - | (35) | (383) |
| Transfers | (242) | - | 242 | - |
| Exchange rate differences | 31 | - | 4 | 35 |
| **Gross value at December 31, 2011** | **22,511** | **2,302** | **6,180** | **30,993** |
| **Amortization at December 31, 2011** | **(18,113)** | **(2,092)** | **(6,046)** | **(26,251)** |
| **Net value at December 31, 2011** | **4,398** | **210** | **134** | **4,742** |

Changes in amortization:

| (in thousands of euros)<br>2010 | Management information software | Patents and trademarks | Other | Total |
|---|---|---|---|---|
| **Amortization at January 1, 2010** | **(15,885)** | **(1,805)** | **(5,908)** | **(23,598)** |
| Amortization charges | (1,296) | (148) | - | (1,444) |
| Amortization write-backs | 131 | - | - | 131 |
| Exchange rate differences | (68) | - | (3) | (71) |
| **Amortization at December 31, 2010** | **(17,118)** | **(1,953)** | **(5,911)** | **(24,982)** |

| (in thousands of euros)<br>2011 | Management information software | Patents and trademarks | Other | Total |
|---|---|---|---|---|
| **Amortization at January 1, 2011** | **(17,118)** | **(1,953)** | **(5,911)** | **(24,982)** |
| Amortization charges | (1,400) | (139) | (19) | (1,558) |
| Amortization write-backs | 302 | - | 9 | 311 |
| Transfers | 124 | - | (124) | - |
| Exchange rate differences | (21) | - | (1) | (22) |
| **Amortization at December 31, 2011** | **(18,113)** | **(2,092)** | **(6,046)** | **(26,251)** |

### MANAGEMENT INFORMATION SOFTWARE

As part of an ongoing process of upgrading and reinforcing its information systems, in 2010 and 2011 the Group purchased licenses of new management information software together with additional licenses for software already in use. Investments concerned license purchase costs together with the cost of developing and configuring the corresponding software.
Write-offs and disposals of intangible assets mainly concerns the scrapping of obsolete software.

### OTHER INTANGIBLE ASSETS

Nearly all of the other intangible assets were fully amortized numerous years ago. The net residual value of these intangible assets was €134,000 at December 31, 2011.

## NOTE 3 PROPERTY, PLANT AND EQUIPMENT

| (in thousands of euros)<br>2010 | Land and buildings | Fixtures and fittings | Equipment and other | Total |
|---|---|---|---|---|
| **Gross value at January 1, 2010** | **9,478** | **12,687** | **24,720** | **46,885** |
| Additions | - | 311 | 760 | 1,071 |
| Write-offs and disposals | - | (710) | (982) | (1,692) |
| Transfers | - | 5 | 7 | 12 |
| Exchange rate differences | - | 185 | 424 | 609 |
| **Gross value at December 31, 2010** | **9,478** | **12,478** | **24,929** | **46,885** |
| **Accumulated depreciation at December 31, 2010** | **(6,619)** | **(8,260)** | **(20,940)** | **(35,819)** |
| **Net value at December 31, 2010** | **2,859** | **4,218** | **3,989** | **11,066** |

| (in thousands of euros)<br>2011 | Land and buildings | Fixtures and fittings | Equipment and other | Total |
|---|---|---|---|---|
| **Gross value at January 1, 2011** | **9,478** | **12,478** | **24,929** | **46,885** |
| Additions | 832 | 937 | 1,068 | 2,837 |
| Write-offs and disposals | - | (74) | (1,344) | (1,418) |
| Transfers | - | 1,141 | (1,141) | - |
| Exchange rate differences | - | 89 | 61 | 150 |
| **Gross value at December 31, 2011** | **10,310** | **14,571** | **23,573** | **48,454** |
| **Accumulated depreciation at December 31, 2011** | **(6,682)** | **(10,199)** | **(19,984)** | **(36,865)** |
| **Net value at December 31, 2011** | **3,628** | **4,372** | **3,589** | **11,589** |

Changes in depreciation:

| (in thousands of euros)<br>2010 | Land and buildings | Fixtures and fittings | Equipment and other | Total |
|---|---|---|---|---|
| **Accumulated depreciation at January 1, 2010** | **(6,559)** | **(7,747)** | **(20,124)** | **(34,430)** |
| Additional depreciation | (60) | (872) | (1,375) | (2,307) |
| Write-offs and disposals | - | 460 | 908 | 1,368 |
| Transfers | - | 1 | (13) | (12) |
| Exchange rate differences | - | (102) | (336) | (438) |
| **Accumulated depreciation at December 31, 2010** | **(6,619)** | **(8,260)** | **(20,940)** | **(35,819)** |

| (in thousands of euros)<br>2011 | Land and buildings | Fixtures and fittings | Equipment and other | Total |
|---|---|---|---|---|
| **Accumulated depreciation at January 1, 2011** | **(6,619)** | **(8,260)** | **(20,940)** | **(35,819)** |
| Additional depreciation | (63) | (860) | (1,332) | (2,255) |
| Write-offs and disposals | - | 75 | 1,265 | 1,340 |
| Transfers | - | (1,087) | 1,087 | - |
| Exchange rate differences | - | (67) | (64) | (131) |
| **Accumulated depreciation at December 31, 2011** | **(6,682)** | **(10,199)** | **(19,984)** | **(36,865)** |

"Land and buildings" pertain solely to the Group's industrial facilities in Bordeaux–Cestas (France), amounting to a gross value of €10,310,000, net of investment grants received and to a net value of €3,628,000.
The facility covers an area of 11.4 hectares (28.5 acres) and the buildings represent 29,100 m2 (314,500 sq.ft.). Land and buildings were partly purchased by the company under financial leases (the company became owner of them in October 2002), and partly outright. These have been paid for in full.
The assets (including fixtures and fittings) purchased under finance leases are carried at cost and depreciated in the consolidated financial statements: they are valued at €4,745,000 including €4,272,000 for the buildings and fixtures, depreciated in full, and €473,000 for the land. No acquisitions of new equipment were made using finance leases in 2011 or 2010.
The assets purchased outright by the company (excluding fixtures and fittings) represent €5,854,000, of which €2,593,000 has been depreciated at December 31, 2011. Fixed assets remaining to be depreciated (net amount

€2,596,000 excluding the value of land, which is non-depreciable) mainly refer to the plant extension carried out in 2000 and to construction of the International Advanced Technology & Conference Center at the Bordeaux-Cestas industrial site in 2007.
Investments made in 2011 in order to strengthen the Group's industrial capacity and expand its showrooms concern the extension of the International Advanced Technology & Conference Center at the industrial site for a total of €1,149,000 (€584,000 for construction, and €565,000 for fixtures and fittings).
Other fixed assets purchased in 2011 and 2010 mainly concerned manufacturing molds and tools for the Bordeaux–Cestas industrial facility.

## NOTE 4 NON-CURRENT FINANCIAL ASSETS

| (in thousands of euros)<br>2010 | Investments in subsidiaries | Other non-current financial assets | Total |
|---|---|---|---|
| Gross value at January 1, 2010 | 3,011 | 992 | 4,003 |
| Additions | 130 | 1,206 | 1,336 |
| Disposals | (359) | (1,219) | (1,578) |
| Exchange rate differences | (1) | 89 | 88 |
| Gross value at December 31, 2010 | 2,781 | 1,068 | 3,849 |
| Impairment provision at December 31, 2010 | (2,079) | (70) | (2,149) |
| Net value at December 31, 2010 | 702 | 998 | 1,700 |

| (in thousands of euros)<br>2011 | Investments in subsidiaries | Other non-current financial assets | Total |
|---|---|---|---|
| Gross value at January 1, 2011 | 2,781 | 1,068 | 3,849 |
| Additions | - | 117 | 117 |
| Disposals | - | (183) | (183) |
| Exchange rate differences | - | 38 | 38 |
| Gross value at December 31, 2011 | 2,781 | 1,040 | 3,821 |
| Impairment provision at December 31, 2011 | (1,871) | (51) | (1,922) |
| Net value at December 31, 2011 | 910 | 989 | 1,899 |

"Investments in subsidiaries" exclusively concern companies not included in the scope of consolidation. "Other non-current financial assets" at December 31, 2011 primarily consist of deposits and guarantees.
In 2010, the €130,000 increase in "investments in subsidiaries" reflected the increase in capital of Lectra Maroc SARL. The €359,000 reduction in "investments in subsidiaries" reflected the liquidation of the Group's subsidiary in Colombia on December 31, 2010, this subsidiary having been inactive for many years and its shares having been fully written down.

## NOTE 5 RELATED-PARTY TRANSACTIONS

The amounts below refer to fiscal year 2011 or December 31, 2011, as applicable.

| Type of transaction | Items concerned in consolidated financial statements | Non-consolidated subsidiaries concerned | Amounts (in thousands of euros) |
|---|---|---|---|
| Receivables [1] | Trade accounts receivable | Lectra Maroc Sarl (Morocco) | 548 |
| | | Lectra Chile SA (Chile) | 286 |
| | | Lectra Systemes Inc. (Philippines) | 233 |
| | | Lectra Israel Ltd (Israël) | 522 |
| | | Other subsidiaries non consolidated | 4 |
| Payables [1] | Trade payables and other current liabilities | Lectra Singapore Pte Ltd (Singapore) | (589) |
| | | Other subsidiaries non consolidated | (48) |
| Sales [2] | Revenues | Lectra Maroc Sarl (Morocco) | 496 |
| | | Lectra Chile SA (Chile) | 36 |
| | | Lectra Israel Ltd (Israël) | 39 |
| | | Lectra Systemes Inc. (Philippines) | 22 |
| Commissions [2] | Selling, general and administrative expenses | Lectra Singapore Pte Ltd (Singapore) | (285) |
| | | Lectra Systemes Inc. (Philippines) | (26) |
| Personnel invoiced [2] | Selling, general and administrative expenses | Lectra Singapore Pte Ltd (Singapore) | (447) |
| | | Lectra Maroc Sarl (Morocco) | (6) |
| Financial interest [2] | Interest income | Lectra Maroc Sarl (Morocco) | 8 |
| | | Lectra Systemes Inc. (Philippines) | 8 |
| | | Lectra Chile SA (Chile) | 6 |
| | | Lectra Israel Ltd (Israël) | 6 |

(1) Amounts between brackets represent a liability in the statement of financial position, absence of brackets an asset.
(2) Amounts between brackets represent an expense for the year, absence of brackets an income for the year.

The parties concerned are either agents or distributors of the company's products in their respective countries. The transactions in question mainly concern purchases from the parent company for the purposes of their local operations or charges and commissions billed to the parent company in order to cover their overheads in the case of agents. Transactions with Board of Directors are limited to aspects of compensation solely, details of which are provided in notes 24.6 and 24.7.

## NOTE 6 TAXES

### NOTE 6.1 TAX CHARGE

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Current tax income (expense) | (4,760) | (2,001) |
| Deferred tax income (expense) | (3,252) | (2,758) |
| **Net tax income (expense)** | **(8,012)** | **(4,759)** |

The research tax credit (*crédit d'impôt recherche*) applicable in France is deducted from R&D expenses (see note 20). It amounts to €5,474,000 in 2011 (€5,813,000 in 2010).
Income tax payable amounts to €1,776,000 at December 31, 2011 (€537,000 at December 31, 2010).

### NOTE 6.2 EFFECTIVE TAX RATE

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Expense at standard rate of corporate income tax in France [1] | (9,218) | (6,931) |
| Effect of reduction in unrecognized deferred tax assets | 649 | 2,259 |
| Effect of other countries' different tax rates | 673 | 454 |
| Effect of non taxable income and non deductible expenses | 722 | 137 |
| Effect of CVAE [2] | (700) | (553) |
| Others | (138) | (125) |
| **Net tax expense** | **(8,012)** | **(4,759)** |
| **Effective tax rate** | **29.45%** | **23.32%** |

(1) The standard rate of corporate income tax in France amounts to 33.88% in 2011 and to 33.96% in 2010.
(2) The *"cotisation sur la valeur ajoutée des entreprises"* (CVAE – tax on corporate value added) in France satisfies the definition of an income tax as set forth in IAS 12.2 – Income taxes based on taxable profit.

### NOTE 6.3 DEFERRED TAXES

Owing to uncertainty over the future profit-earning capacity of some subsidiaries, all or part of their tax losses and other deferred tax assets on timing differences is not recognized as a deferred tax asset. The Group considers five years to be a reasonable period for the utilization of tax losses. Beyond that period, because subsidiaries are deemed unlikely to utilize their tax losses, the portion of their bases not expected to be utilized in the next five years is not recognized. Forecasts made in order to determine the timetable for the utilization of deferred tax losses, based on assumptions consistent with those used in the impairment tests, were established on the basis of a Group 3-year plan, extrapolated to five years for the subsidiaries in question, with variants according to the strategic objectives of each of the subsidiaries concerned and allowing for the cyclical difficulties and macroeconomic environment in which it operates.

At December 31, 2011, unrecognized deferred tax assets totaled €7,118,000, compared with €7,754,000 at December 31, 2010. The Spanish and US subsidiaries accounted for the bulk of this figure, for which deferred tax assets have been partially recognized and for which tax losses can be deferred for 15 and 20 years respectively, pushing back the most distant deadlines for utilization to 2019 for the Spanish subsidiary and to 2029 for the US subsidiary.
The share of deferred taxes directly recognized in retained earnings for the year works out to a negative €284,000 and corresponds to the tax effect on the mark-to-market of interest-rate swaps (see note 13.3).
Deferred taxes are listed below according to the type of timing difference:

| (in thousands of euros) | 2009 | P&L impact | Equity impact | Translation adjustments | 2010 |
|---|---|---|---|---|---|
| Tax losses carry-forward | 11,521 | (2,943) | - | 150 | 8,728 |
| Depreciation / amortization of tangible and intangible assets | 629 | (171) | - | (6) | 452 |
| Impairment of accounts receivable | 474 | 36 | - | 7 | 518 |
| Write-down of inventories | 1,196 | (71) | - | 208 | 1,333 |
| Financial instruments | 733 | - | (351) | - | 382 |
| Other timing differences | 1,019 | 391 | - | 115 | 1,525 |
| **Total** | **15,573** | **(2,758)** | **(351)** | **474** | **12,938** |

| (in thousands of euros) | 2010 | P&L impact | Equity impact | Translation adjustments | 2011 |
|---|---|---|---|---|---|
| Tax losses carry-forward | 8,728 | (3,366) | - | 25 | 5,387 |
| Depreciation / amortization of tangible and intangible assets | 452 | 56 | - | (8) | 500 |
| Impairment of accounts receivable | 518 | 23 | - | 3 | 544 |
| Write-down of inventories | 1,333 | 88 | - | 79 | 1,500 |
| Financial instruments | 382 | - | (284) | - | 98 |
| Other timing differences | 1,525 | (53) | - | 42 | 1,514 |
| **Total** | **12,938** | **(3,252)** | **(284)** | **141** | **9,543** |

## NOTE 6.4 SCHEDULE OF ACTIVATED TAX LOSSES CARRY-FORWARDS

| | Expiration date | | | |
|---|---|---|---|---|
| (in thousands of euros) | Until 2012 | Between 2013 and 2017 | Beyond 2017 | Total |
| Deferred tax assets on tax losses [1] | - | 121 | 5,266 | 5,387 |

(1) The above expiration date corresponds to the maximum period of utilization. Activated deferred tax assets are expected to be utilized within a period of between one and five years.

## NOTE 7 INVENTORIES

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Raw materials | 22,115 | 20,918 |
| Finished goods and works-in-progress[1] | 7,336 | 7,768 |
| **Inventories, gross value** | **29,451** | **28,686** |
| Raw materials | (6,130) | (6,425) |
| Finished goods and works-in-progress[1] | (2,209) | (2,925) |
| **Write-downs** | **(8,339)** | **(9,350)** |
| Raw materials | 15,985 | 14,493 |
| Finished goods and works-in-progress[1] | 5,127 | 4,843 |
| **Inventories, net value** | **21,112** | **19,336** |

(1) Including demonstration and second-hand equipment.

€895,000 of inventory fully written down was scrapped in the course of 2011 (€1,624,000 in 2010), thereby diminishing the gross value and write-downs by the same amount.
In 2011, as in 2010, the increase in revenues from CAD/CAM equipment and from spare parts and consumables has led to an increase in Group inventories.
Inventory write-downs charged for the year amounted to €2,370,000 (€3,036,000 in 2010). Reversals of previous write-downs relating to sales transactions amounted to €2,485,000 (€2,076,000 in 2010), booked against the charges for the period.

## NOTE 8 TRADE ACCOUNTS RECEIVABLE

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Trade accounts receivable excluding deferred revenues | 9,689 | 8,582 |
| Deferred recurring software evolution and services contracts | 33,546 | 33,458 |
| Other deferred equipment and services revenues | 2,176 | 2,376 |
| VAT on deferred recurring contracts and on deferred revenues | 3,929 | 3,942 |
| **Trade accounts receivable, gross value** | **49,340** | **48,358** |
| **Provision for impairment** | **(4,807)** | **(4,496)** |
| **Trade accounts receivable, net value** | **44,533** | **43,862** |

Trade receivables at December 31, 2011 include €35,722,000, excluding taxes on recurring contracts, other services and equipment billed in advance for 2012 (compared with €35,834,000, excluding taxes, at December 31, 2010 in respect of 2011). An identical amount is recorded in "Deferred revenues" (see note 15).

The Group recognizes an impairment charge on trade accounts in light of an individual analysis of overdue accounts receivable. Changes in impairment charges are analyzed below:

| | 2011 | 2010 |
|---|---|---|
| **Provisions at January 1** | **(4,496)** | **(5,266)** |
| Additional provision | (1,708) | (2,373) |
| Write-back of provisions no longer required | 291 | 349 |
| Write-back of provisions on receivables paid | 412 | 1,192 |
| Write-back of provisions on irrecoverable receivables written-off[1] | 678 | 1,644 |
| Exchange rate differences | 16 | (42) |
| **Provisions at December 31** | **(4,807)** | **(4,496)** |

(1) The Group conducted a review in 2010 of fully depreciated receivables, as a result of which a total amount of €1,644,000 in 2010 had been deemed irrecoverable, with no impact on Group net income.

Changes in provisions for impairment of accounts receivable and related accounts, net of irrecoverable receivables, are recognized under "Selling, general and administrative expenses" in the income statement, on the line "Net provisions".

Schedule of gross receivables by maturity:

| | 2011 | 2010 |
|---|---|---|
| Receivables not yet due | 39,920 | 38,214 |
| Receivables due, of which due in: | 9,420 | 10,144 |
| – less than 1 month | 2,300 | 3,010 |
| – 1-3 months | 1,385 | 1,536 |
| – more than 3 months | 5,735 | 5,598 |
| **Total** | **49,340** | **48,358** |

Almost all of the provisions of accounts receivable and related accounts amounting to €4,807,000 at December 31, 2011 concerns accounts more than 3 months overdue.

## NOTE 9 TAX CREDIT AND OTHER CURRENT ASSETS

### NOTE 9.1 INCOME TAX RECEIVABLES

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Research tax credit | 10,139 | 5,669 |
| Other tax credits | - | 480 |
| Income tax down payment | 716 | 625 |
| Timing differences related to research tax credit | (14) | 144 |
| **Total income tax receivables** | **10,841** | **6,918** |

In 2011, the company did not receive the amount of the French research tax credit recognized in 2010, the measure providing for early repayment of the unused amounts of research tax credit by the French IRS (*Trésor Public*) having been rescinded in 2011. This measure was originally instituted at the end of 2008 as part of the French economic stimulus plan and had been prolonged in 2010. As a result, the company had received €6,207,000 in 2010 in respect of the research tax credit recognized in 2009.
At December 31, 2011, the research tax credit amounted to €10,139,000. This comprised the research tax credit recognized in 2011 (€5,857,000) and in 2010 (€5,669,000), to which income tax payable in respect of 2011 amounting to €1,387,000 has been charged, pursuant to the French second amending finance act for 2011 of September 19, 2011 modifying the rules on the utilization of tax loss carryfowards.
Consequently, the balance of the 2010 research tax credit (€4,282,000) and the 2011 research tax credit (€5,857,000) will be charged to income tax payable in respect of fiscal 2012 through 2014, and the unusable fraction will be refunded by the French tax administration in 2014 (for the 2010 research tax credit) and in 2015 (for the 2011 research tax credit).

### NOTE 9.2 OTHER CURRENT ASSETS

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Other tax receivables | 1,954 | 1,324 |
| Staff and social security receivables | 270 | 321 |
| Other current assets | 4,122 | 3,029 |
| **Other current assets** | **6,346** | **4,674** |

Other tax receivables at December 31, 2011 comprised the parent company's (French) recoverable value-added tax in the amount of €1,116,000 (€300,000 at December 31, 2010).
Other current assets notably comprise prepaid rental expenses, insurance premiums and equipment rental charges.

## NOTE 10 SHARE CAPITAL

At December 31, 2011, the Group's capital stood at €28,036,501.70, including 28,903,610 shares with a par value of €0.97 per share.

### NOTE 10.1 CHANGES IN SHARE CAPITAL AND SHARE PREMIUM

In 2011, share capital has increased by the issuance of 404,596 shares, resulting from the exercise of stock options (issuance of 3,500 shares in 2010).
The tables below provide details of changes in the number of shares, the capital and additional paid-in capital and merger premiums in fiscal 2011 and 2010.
At December 31, 2011, apart from the authority to increase the capital granted by the Shareholders' Meeting within the framework of the granting of stock options to senior managers and employees, there is no other authorisation outstanding such as to alter the number of shares comprising the share capital.

*Note 10.1.1 Share Capital*

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Number of shares | Share capital (in euros) | Number of shares | Share capital (in euros) |
| **Share capital at January 1** | **28,499,014** | **27,644,044** | **28,495,514** | **27,640,649** |
| Stock options exercised | 404,596 | 392,458 | 3,500 | 3,395 |
| **Share capital at December 31** | **28,903,610** | **28,036,502** | **28,499,014** | **27,644,044** |

The shares comprising the capital are fully paid up.

*Note 10.1.2 Share Premium*

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| **Share premium at January 1** | **1,039** | **1,033** |
| Stock options exercised | 1,449 | 5 |
| **Share premium at December 31** | **2,487** | **1,039** |

## NOTE 10.2 TREASURY SHARES

The General Meeting of Shareholders on April 29, 2011 renewed the existing share buyback program and authorized the Board of Directors to buy and sell company shares. The purposes of this program is solely to maintain liquidity in the market in the company's shares, via an authorized investment services provider acting within the framework of a liquidity agreement in compliance with the Charter of Ethics of the French Association of Investment Companies (AFEI) or any other charter recognized by the French Financial Markets Authority (AMF).
This share buyback program was published on March 15, 2011 on the Lectra website (www.lectra.com).
In accordance with French stock market regulations, the company has rolled over its Liquidity Agreement with SG Securities (Société Générale Group) in order to maintain the liquidity for Lectra's shares on the stock market, and has traded in its own shares.
Overall, at December 31, 2011, the company held 0.5% of its capital within the framework of the Liquidity Agreement (compared with 0.5% at December 31, 2010) for a total of €722,000 (compared with €386,000 at December 31, 2010) representing an average purchase price of €5.39 per share, which has been deducted from shareholders' equity.

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Number of shares | Amount (in thousands of euros) | Average price per share (in euros) | Number of shares | Amount (in thousands of euros) | Average price per share (in euros) |
| **Treasury shares at January 1** | | | | | | |
| Liquidity agreement | 143,740 | (386) | 2.69 | 442,546 | (1,439) | 3.25 |
| **Total at January 1 (historical cost)** | **143,740** | **(386)** | **2.69** | **442,546** | **(1,439)** | **3.25** |
| **Liquidity agreement** | | | | | | |
| Purchases (at purchase price) | 185,256 | (1,017) | 5.49 | 126,609 | (349) | 2.76 |
| Sales (at sale price) | (195,142) | 1,049 | 5.37 | (425,415) | 1,478 | 3.47 |
| **Net cash flow** | **(9,886)** | **31** | | **(298,806)** | **1,129** | |
| Gains (losses) on disposals | | 367 | | | 76 | |
| **Treasury shares at December 31** | | | | | | |
| Liquidity agreement | 133,854 | (722) | 5.39 | 143,740 | (386) | 2.69 |
| **Total at December 31 (historical cost)** | **133,854** | **(722)** | **5.39** | **143,740** | **(386)** | **2.69** |

Under the Liquidity Agreement, an additional amount of €1,000,000 in cash, but not exceeding the equivalent of 150,000 shares, could be placed at the disposal of SG Securities by the company, further to the 430,260 shares and €176,000 in cash (making a total equivalent value of €1,949,000) placed at its disposal at the date of signature of the agreement.

## Summary of Cash Flows

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Treasury shares at January 1 (historical cost) | (386) | (1,439) |
| Treasury shares at December 31 (historical cost) | (722) | (386) |
| Gross changes in the year (historical cost) | (336) | 1,053 |
| – of which losses on disposals | 367 | 76 |
| **Net cash flow of the period** [1] | **31** | **1,129** |

(1) A negative figure corresponds to a net outflow reflecting purchases and sales of its own shares by the company.

## NOTE 10.3 VOTING RIGHTS

Voting rights are proportional to the capital represented by stock held.
However, double voting rights, subject to certain conditions, existed until May 3, 2001.
The Extraordinary Meeting of Shareholders of May 3, 2001 had decided that shares registered after May 15, 2001, together with shares purchased after that date, are not eligible for double voting rights (with the exception of special cases covered by the corresponding resolution submitted to the said Extraordinary Meeting). At their own initiative, André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer, had canceled at that time the double voting rights attached to the shares they held.
Overall, at December 31, 2011, 28,310,327 shares qualified for normal voting rights, and only 459,429 (i.e. 1.59% of the capital stock) for double voting rights. Moreover, no other shares could potentially qualify for double voting rights at some future date.
In principle, at December 31, 2011, the total number of voting rights attached to the company's shares was 29,363,039. This number is reduced to 29,229,185 due to the fact that no voting rights are attached to treasury shares.

## NOTE 10.4 STATUTORY THRESHOLDS

Other than the legal notification requirements for crossing the thresholds established by French law, there is no special statutory obligation.

## NOTE 10.5 STOCK OPTIONS PLANS

At December 31, 2011, 177 beneficiaries (179 at December 31, 2010) held 2,881,319 stock options each exercisable for one share of Lectra S.A., the Group's parent company, with a par value of €0.97. At that date, 157 Lectra's managers and employees (i.e. 12% of Group employees) held 2,829,602 options; 20 former employees continued to hold 51,717 valid options.
If all stock options were exercised, 2,881,319 company shares would be issued and the capital increased by €2,794,879.43 (plus a total additional paid-in capital of €10,814,909.26). The company's capital would thereby be raised to €30,831,381.13, divided into 31,784,929 shares with a par value of €0.97 each.
Annual option plans are granted by the Board of Directors at least twenty trading days after the dividend approved by the annual Meeting of Shareholders is made payable, or thirty to forty-five calendar dates after the Meeting if no dividend is declared, i.e. around June 10.
The share exercise price is set on the date of granting of the options, at a price in no circumstances less than the average opening price of the share listed for the twenty trading sessions prior to the date of granting of options by the Board of Directors.
IFRS 2 requires companies to expense the value of the benefit granted to the beneficiaries of stock options.

Fair value of stock options granted in 2011 and 2010 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

| | 2011 | 2010 |
|---|---|---|
| Exercise price (in euros) | 6.25 | 2.50 |
| Share price on the date of allocation (in euros) | 6.10 | 2.16 |
| Risk-free interest rate | 2.45% | 1.50% |
| Dividend payout rate | 2.95% | 5.21% |
| Volatility [1] | 25.00% | 30.00% |
| Duration of options | 4 years | 4 years |
| Fair value of one option (in euros) | 0.98 | 0.24 |

(1) Expected volatility is calculated on the basis of the observed historical volatility of the company's shares.

Volatility is calculated on the basis of the observed historical volatility of the company's share price over a time frame corresponding to the vesting period. This calculation ignores peaks resulting from exceptional events.
Fair value of the options granted on June 9, 2011 amounts to €427,000. An expense of €257,000 is recognized in the 2011 financial statements, including €172,000 in respect of the grants made in 2011, and €85,000 in respect of options granted previously. Charges for the year are recognized under personnel expenses. Plans in force at December 31, 2011 will impact the years 2012, 2013 and 2014 alone in the estimated amounts of €144,000, €61,000 and €22,000 respectively. The Group paid a €40,000 employer's contribution based on the fair value of the options granted in 2011, fully expensed in personnel costs for 2011.

*Note 10.5.1 Stock Options Outstanding: Options Granted, Exercised and Canceled During the Period*

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Number of stock options | Average exercise price (in euros) | Number of stock options | Average exercise price (in euros) |
| **Stock options outstanding at January 1** | **2,969,644** | **4.49** | **2,993,528** | **4.85** |
| Stock options granted during the year | 435,727 | 6.25 | 486,533 | 2.50 |
| Stock options exercised during the year | (404,596) | 4.55 | (3,500) | 2.50 |
| Stock options expired/cancelled during the year | (119,456) | 5.07 | (506,917) | 4.73 |
| **Stock options outstanding at December 31** | **2,881,319** | **4.72** | **2,969,644** | **4.49** |
| – of which fully vested | 2,192,863 | 4.86 | 2,218,180 | 5.06 |
| – for which exercise rights remain to be acquired | 688,456 | 4.29 | 751,464 | 2.81 |

For plans in force at December 31, 2011, the terms relating to the vesting of options are determined on an annual basis over a period of four years since the 1st of January of the year they are granted, and depend on whether the beneficiary was a Group employee at December 31 of the elapsed fiscal year.
From 2006 onward, performance-based options are granted by the Board of Directors only upon final approval of the relevant actual results against the corresponding targets for that year and are notified in advance to beneficiaries individually. The number of potential options concerned in this respect for granting in 2012 having fulfilled their objectives for 2011 is indicated in note 10.5.6.

*Note 10.5.2 Breakdown of Stock Options Outstanding at December 31, 2011, by Category of Beneficiaries*

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Number of beneficiaries | Number of stock options | % | Of which fully vested | Of which exercise rights remain to be acquired |
| Executive Directors and other members of the Executive Committee [1] | 2 | 849,769 | 29% | 645,705 | 204,064 |
| Group management | 25 | 1,083,186 | 38% | 800,064 | 283,122 |
| Other employees | 130 | 896,647 | 31% | 695,377 | 201,270 |
| Persons having left the company and still holding unexercised options | 20 | 51,717 | 2% | 51,717 | – |
| **Total** | **177** | **2,881,319** | **100%** | **2,192,863** | **688,456** |

(1) The two beneficiaries are Jérôme Viala, Chief Financial Officer, and Véronique Zoccoletto, Chief Human Capital and Information Officer, members of the Executive Committee. André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer do not hold any options.

*Note 10.5.3 Breakdown of Stock Options at December 31, 2011, by Expiration Date and Exercise Price*

| Grant date | Expiration date | Number of stock options | Exercise price (in euros) |
|---|---|---|---|
| May 28, 2004 | May 28, 2012 | 278,703 | 6.61 |
| May 23, 2006 | May 23, 2014 | 388,997 | 5.63 |
| June 8, 2007 | June 8, 2015 | 423,037 | 6.30 |
| July 27, 2007 | July 27, 2015 | 694 | 6.30 |
| June 11, 2008 | June 11, 2016 | 70,892 | 6.30 |
| June 11, 2008 | June 11, 2016 | 298,904 | 4.10 |
| June 9, 2009 | June 9, 2017 | 36,907 | 4.10 |
| June 9, 2009 | June 9, 2017 | 504,600 | 2.50 |
| June 10, 2010 | June 10, 2018 | 444,826 | 2.50 |
| June 9, 2011 | June 9, 2019 | 433,759 | 6.25 |
| **Total** | | **2,881,319** | |

Among the 51,717 options held by people having left the Group, 32,039 expire in 2012, 14,265 in 2013 and 5,413 in 2014.

*Note 10.5.4 Breakdown of Stock Options for Which Exercise Rights Remain to be Acquired After December 31, 2011 by the Beneficiaries*

| Year of vesting | Number of stock options |
|---|---|
| 2012 | 361,818 |
| 2013 | 218,256 |
| 2014 | 108,382 |
| **Total** | **688,456** |

*Note 10.5.5 Stock Option Plans of Executive Directors at December 31, 2011*

No stock options were granted to André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer, each of whom owns more than 10% of the capital since 2000 and is therefore prohibited since this date by French law from being granted further stock options. They held no stock options at December 31, 2011.

*Note 10.5.6 Stock Options Granted in 2011*

On June 9, 2011, the Board of Directors granted two series of stock options under the authority given to it by the Extraordinary General Meeting of April 29, 2011:

– 247,267 stock options to 67 Group employees, each option entitling the beneficiary to one share at an exercise price of €6.25 in respect of the fulfillment of 2010 objectives;

– 188,460 stock options to 100 Group employees, each option entitling the beneficiary to one share at an exercise price of €6.25, in respect of the 2011 stock option plan.

In light of the impact of the economic and financial crisis on Group's earnings and its share price, the Board of Directors has introduced more stringent rules for the granting of stock options, in particular, in increasing the variable portion of the options plans for 2010 and 2011. For these two plans and for most beneficiaries, only a quarter of the maximum number of options for each individual plan available for granting were actually granted at their initial grant date. The remaining three-quarters will be granted the following year, depending on the performance of the individuals and/or the Group.

Consequently, a maximum of 461,700 options have been earmarked for granting in 2012 to 85 beneficiaries in respect of fulfillment of their 2011 objectives. The final number and exercise price of these options will be set by the Board of Directors at the time of granting in 2012. The exercise price may in no circumstances be less than €6.25.

Of the 435,727 stock options granted in 2011, the 10 Group employees (no executive directors) receiving the largest number of options in 2011 were granted a total of 236,040 options.

*Note 10.5.7 Stock Options Exercised in 2011*

In 2011, 49 employees and former employees of the Group exercised a total of 404,596 options, at an exercise price of €4.55 per option.

| | 2011 | |
|---|---|---|
| | Number of stock options exercised | Exercise price (in euros) |
| May 27, 2003 stock option plan | 237,660 | 4.75 |
| May 23, 2006 stock option plan | 74,738 | 5.63 |
| June 11, 2008 stock option plan | 36,376 | 4.10 |
| June 9, 2009 stock option plan | 1,822 | 4.10 |
| June 9, 2009 stock option plan | 54,000 | 2.50 |
| **Total** | **404,596** | **4.55** |

## NOTE 11 CURRENCY TRANSLATION ADJUSTMENT

Analysis of changes recorded in 2011 and 2010:

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| **Cumulative translation adjustment at January 1** | **(8,877)** | **(8,585)** |
| Differences on translation of subsidiaries' income statements | 2 | (147) |
| Adjustment required to maintain subsidiaries' retained earning at historical exchange rate | 70 | (309) |
| Other movements | (11) | 164 |
| **Cumulative translation adjustment at December 31** | **(8,816)** | **(8,877)** |

## NOTE 12 RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations correspond to lump-sum amounts payable under defined benefit plans. These lump-sum amounts are generally paid at the time of retirement, but they may also be paid upon resignation or dismissal, depending on local legislation. Executive Directors are not beneficiaries of any defined benefit retirement plans. These obligations apply mainly in France, in Italy and Japan, as detailed below:

| 2010 (in thousands of euros) | France | Italy | Japan | Taiwan | Others | Total |
|---|---|---|---|---|---|---|
| **Retirement benefits at January 1, 2010** | **1,380** | **1,756** | **561** | **-** | **87** | **3,784** |
| Charges of the year | 112 | 172 | 141 | 82 | (7) | 500 |
| Benefits paid | (6) | (218) | - | (82) | - | (306) |
| Exchange rate differences | - | - | 137 | - | 9 | 146 |
| **Retirement benefits at December 31, 2010** | **1,486** | **1,710** | **839** | **-** | **89** | **4,124** |

| 2011 (in thousands of euros) | France | Italy | Japan | Taiwan | Others [1] | Total |
|---|---|---|---|---|---|---|
| **Retirement benefits at January 1, 2011** | **1,486** | **1,710** | **839** | **-** | **89** | **4,124** |
| Charges of the year | 393 | 138 | 93 | 39 | 131 | 794 |
| Benefits paid | - | (400) | (51) | (39) | - | (490) |
| Exchange rate differences | - | - | 76 | - | 8 | 84 |
| **Retirement benefits at December 31, 2011** | **1,879** | **1,448** | **957** | **-** | **228** | **4,512** |

(1) Lectra Mexico's retirement benefit obligations are recognized in the Group financial statements for the first time in 2011, and amount to €102,000 at December 31, 2011.

Breakdown of net annual charge:

| 2010 (in thousands of euros) | France | Italy | Japan | Taiwan | Others | Total |
|---|---|---|---|---|---|---|
| Cost of benefits provided in the year | 56 | - | 70 | 25 | (7) | 144 |
| Interest paid | 1 | 88 | 14 | 13 | - | 116 |
| Actuarial gains / losses for the year | 55 | 84 | 57 | 44 | - | 240 |
| **Charge (income) of the year** | **112** | **172** | **141** | **82** | **(7)** | **500** |

| 2011 (in thousands of euros) | France | Italy | Japan | Taiwan | Others | Total |
|---|---|---|---|---|---|---|
| Cost of benefits provided in the year | 69 | - | 73 | 26 | 135 | 303 |
| Interest paid | 2 | 72 | 16 | 12 | 8 | 110 |
| Actuarial gains / losses for the year | 322 | 66 | 4 | 1 | (12) | 381 |
| **Charge (income) of the year** | **393** | **138** | **93** | **39** | **131** | **794** |

Main actuarial assumptions used:

| | France | Italy | Japan | Taiwan |
|---|---|---|---|---|
| Discount rate | 4.50% | 4.45% | 1.80% | 1.75% |
| Average rate of salary increase, including inflation | 2.70% | 3.00% | 2.50% | 1.50% |
| Personnel turnover rate [1] | 2.30% / 8.06% | 5.00% | 3.50% | 8.70% |

(1) Calculated via a table based on age group. The personnel turnover rate for France is 2.30% for non-managerial grade personnel, and 8.06% for managerial grade personnel.

## NOTE 13 BORROWINGS

### NOTE 13.1 BREAKDOWN OF BORROWINGS BY CURRENCY

At December 31, 2011, 100% of the company's financial debt was euro-denominated, as at December 31, 2010.

### NOTE 13.2 SCHEDULE OF BORROWINGS BY CATEGORY AND BY MATURITY

At December 31, 2011, the repayment schedule is as follows:

| | Short term | Long term | | |
|---|---|---|---|---|
| (in thousands of euros) | Less than 1 year | Between 1 and 5 years | More than 5 years | Total |
| Medium term bank loan [1] | 560 | 15,360 | - | 15,920 |
| Interest-free repayable advances [2] | 445 | 1,324 | - | 1,769 |
| Cash facilities | - | - | - | - |
| **Total** | **1,005** | **16,684** | **-** | **17,689** |

(1) ) The repayment dates of the borrowing used in the table above are the contractual payment dates, at the latest, in light of repayments already made as at December 31, 2011, without taking into account the accelerated repayments under the various contract clauses concerned (see note 13.2.1).
(2) The repayable advances correspond to public grants to finance R&D programs.

*Note 13.2.1 Medium Term Bank Loan*

In 2007 the company contracted a €48,000,000 medium term bank loan from Société Générale and Natixis in order to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007, at a price of €6.75 per share.

The first two half-yearly installments of €3,840,000 each were repaid on June 30 and December 31, 2010. Additionally, and in light of its sharply improved cash position in the course of 2010, the company made a voluntary repayment of €10,000,000 on December 31, 2010, ahead of the scheduled repayment date. This voluntary repayment replaced the contractual half-yearly installments due in respect of 2011, which were consequently reduced to €560,000 and effectively repaid at December 31, 2011. At December 31, 2011, the company had made a second repayment of €10,000,000 ahead of schedule, which similarly substitutes for the contractual half-year repayments due in 2012.

A supplemental repayment of €3,840,000 took place on June 30, 2011 pursuant to the excess cash flow clause in the loan contract, in virtue of the sharp increase in cash and cash equivalents as at December 31, 2010.

Repayments made are summarized in the table below:

| | 2011 | 2010 |
|---|---|---|
| **Balance of bank loan outstanding at January 1** | **30,320** | **48,000** |
| Contractual repayments | (560) | (7,680) |
| Early repayments (at company's initiative) | (10,000) | (10,000) |
| Application of excess cash flow clause | (3,840) | - |
| **Balance of bank loan outstanding at December 31** | **15,920** | **30,320** |

The balance outstanding on the loan, i.e. €15,920,000, is repayable in three half-yearly installments as from December 31, 2012—the first one for €560,000 (on December 31, 2012), the following one for €9,600,000 (June 30, 2013) and the last one for €5,760,000 (on December 31, 2013).

In 2010, the loan carried interest at the 3-month Euribor rate plus a margin that was set at 1.85% per year. As provided under the contract, this margin was reduced to 0.95% per year as from January 1, 2011 given the leverage ratio of fiscal year 2010.

The company had hedged in 2007 its interest-rate risk exposure on part of the loan by converting this floating rate into a fixed rate via two interest-rate swaps (see note 13.3).

*Note 13.2.2 Covenants*

The company is bound during the period of the loan to respect at December 31 of each year the covenants governing the ratios between its net financial borrowing and shareholders' equity ("gearing") on the one hand, and between net financial borrowing and EBITDA ("leverage") on the other. A loan covenant provides for early repayment of the borrowing in its entirety in the event of failure to comply with these ratios; in that event the company would contact its banks in order to come to a satisfactory arrangement.

The ratios to be respected until the maturity of this borrowing are as follows:

| | 2011 | 2012 |
|---|---|---|
| Leverage | < 1.7 | < 1.7 |
| Gearing | < 1 | < 1 |

The company's compliance with these covenants will be calculated yearly on the basis of the annual financial statements. Given that the Group's cash and cash equivalents available exceed its financial debt at December 31, 2011, the two covenants are *de facto* respected by the company.

At the same time, the loan contract entitles the banks to demand early repayment of the balance of the borrowing outstanding under a "change of control" clause in the event that one or more of the company's shareholders, acting in concert—with the exception of André Harari and/or Daniel Harari—came to hold more than 50% of the share capital and/or voting rights. The company has undertaken to limit its capital expenditures to €10,000,000 per year and the dividends distributed to 50% of the consolidated net income for the year elapsed, subject to certain conditions (if less than 50% of consolidated net income for a given year has been distributed, the difference relative to 50% may be distributed in subsequent years). Payment of the total dividend of €5,164,000 in respect of fiscal 2010 is consistent with this condition.

Furthermore, the contract provides for accelerated repayment of the portion actually collected of the arbitral award against Induyco. The receipt of €15,090,000 in 2010 had not given rise to early repayment, the threshold above which this clause applies not having been reached in regard to the aggregate legal fees and costs incurred by Lectra since the start of the proceedings, these having been deducted from the indemnity received for the purpose of calculating a repayment, if applicable. On the other hand, receipt of the balance of the arbitral award (€10,925,000) still owed by Induyco will give rise to early repayment amounting to almost 50% of the total amount to be received (see note 23).

*Note 13.2.3 Repayable Advances*

In 2010, the company booked the balance for €400,000 of a € 2,000,000 repayable advance from OSEO Innovation, a French public body, to aid one of the company's R&D programs. This advance bearing no interest, is progressively repayable subject to the success and profitability of the corresponding project. The first repayment of €406,000 was made on March 31, 2011. The balance of €1,594,000, booked at fair value for €1,550,000 at December 31, 2011, will be repaid from 2012 through 2015.

## NOTE 13.3 FINANCIAL INSTRUMENTS: INTEREST RATE HEDGES – SENSITIVITY ANALYSIS

Since the loan contract signature in 2007, the company has hedged its interest-rate risk exposure in connection with a portion of the medium-term bank borrowing by converting the floating interest rate payable on the borrowing (3-month Euribor rate) into a fixed rate via two interest-rate swap contracts. The interest-rate had been hedged on the basis of the best estimate of the amount of the borrowing over the different periods covered, having due regard to the contract terms.

Since the face value of these swaps remains lower than the face value of the borrowing, they meet the hedge accounting criteria as defined by IFRS. Their fair value at December 31, 2011 is a negative €326,000. The effective portion, corresponding to their full fair value, is entirely recognized in shareholders' equity. No ineffective part has been booked in net financial expenses in 2011.

For a 0.5% (50 basis points) variation in the 3-month Euribor (the interest rate on the underlying borrowing being hedged), the value of the swaps would rise by €48,000 if the interest rate rose, and would fall by the same amount if the interest rate fell. The counterpart of this variation in the value of swaps would be recognized in shareholders'equity.

In 2011, the total effective interest fixed rate after including the cost of the hedging instruments and amounts hedged is 5.24%.

As at January 1, 2012, the nominal value of interest-rate swaps is reduced to €13,000,000. This amount will be reduced to €5,000,000 as at July 1, 2012 until December 31, 2012, when the interest-rate swaps expire.

Consequently, and in the theoretical event that the 3-month Euribor rate remains identical to that at December 31, 2011 (1.36%), the total effective implied interest rate including the cost of the hedging instruments and the amounts hedged would be 5.13% in the first half of 2012, 3.41% in the second half of 2012 and 2.34% in 2013.

## NOTE 13.4 NET CASH – NET FINANCIAL DEBT

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Cash [1] | 20,320 | 30,174 |
| Cash equivalents | 6,000 | - |
| Total borrowings | (17,689) | (32,599) |
| **Net cash (net financial debt)** | **8,631** | **(2,425)** |

(1) The major part of cash is invested in interest-bearing sights accounts.

The €14,000,000 in cash facilities outstanding at December 31, 2010 expired in June 2011. The Group decided not to renew these cash facilities, in light of the cash surplus available to it.
Cash equivalents consist of a €6,000,000 negotiable certificate of deposit, which can be exercised contractually each month without penalty.

## NOTE 13.5 ANALYSIS OF FINANCIAL BORROWINGS BY TYPE OF INTEREST RATE – SENSITIVITY ANALYSIS

All financial borrowings are in euros.
The analysis of financial borrowings by type of interest rate and sensitivity analysis are the following:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| (in thousands of euros) | Carrying amount | Annual average | Impact on financial expenses of a 50bp increase | Carrying amount | Annual average | Impact on financial expenses of a 50bp increase |
| Medium-term bank loan [1] | 15,920 | 28,384 | 22 | 30,320 | 46,064 | 38 |
| Non-interest bearing repayable advances | 1,769 | 1,937 | - | 2,279 | 2,204 | - |
| Cash credit facilities | - | - | - | - | 1,722 | 9 |
| **Total** | **17,689** | **30,322** | **22** | **32,599** | **49,991** | **47** |

(1) The sensitivity analysis concerns only the portion of the borrowing for which the interest-rate risk is not hedged by swaps.

## NOTE 13.6 FINANCIAL INSTRUMENTS: CURRENCY HEDGES

The Group mainly uses forward sales and purchases of currencies to hedge its foreign currency balance sheet positions at the end of each month. The currencies commonly concerned are the US dollar, the Hong Kong dollar, the Australian dollar, the Canadian dollar, the Taiwanese dollar, the Japanese yen and the British pound.
Forward transactions entered into by the company to hedge balance sheet currency positions at December 31, 2011 and 2010 are analyzed below:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | In foreign currency [1] (in thousands) | Fair value (in thousands of euros) [2] | Difference in value [3] | Expiration date | In foreign currency [1] (in thousands) | Fair value (in thousands of euros) [2] | Difference in value [3] | Expiration date |
| USD | 11,913 | 9,207 | 108 | January 6 and 13, 2012 | 10,193 | 7,628 | 32 | January 6, 2011 |
| AUD | (1,417) | (1,114) | (11) | January 6, 2012 | (1,424) | (1,084) | 23 | January 6, 2011 |
| CAD | 1,168 | 884 | 5 | January 6, 2012 | 1,030 | 773 | (4) | January 6, 2011 |
| CHF | (81) | (67) | (0) | January 6, 2012 | (173) | (138) | 3 | January 6, 2011 |
| DKK | (1,739) | (234) | 0 | January 6 and 31, 2012 | (1,032) | (138) | - | January 6, 2011 |
| GBP | (1,361) | (1,629) | 0 | January 6, 2012 | (1,033) | (1,200) | (11) | January 6, 2011 |
| HKD | 7,334 | 730 | 7 | January 6, 2012 | 5,237 | 504 | 2 | January 6, 2011 |
| HRK | 116 | 15 | - | January 9, 2012 | 365 | 50 | - | January 7, 2011 |
| INR | - | - | - | - | (4,068) | (68) | - | January 7, 2011 |
| JPY | (200,780) | (2,004) | (17) | January 6, 2012 | (142,451) | (1,311) | 35 | January 7, 2011 |
| PLN | (1,399) | (314) | 8 | January 9, 2012 | 1,650 | 415 | (2) | January 7, 2011 |
| RON | (1,618) | (374) | 8 | January 6, 2012 | 1,602 | 376 | (3) | January 6, 2011 |
| SEK | (5,585) | (627) | (3) | January 9 and 31, 2012 | (5,035) | (562) | 6 | January 7, 2011 |
| SGD | (759) | (451) | (3) | January 6, 2012 | (440) | (257) | 3 | January 6, 2011 |
| TWD | 14,630 | 373 | 3 | January 6, 2012 | 23,696 | 584 | 18 | January 7, 2011 |
| ZAR | (799) | (76) | (2) | January 6, 2012 | 3,452 | 390 | (11) | January 6, 2011 |
| **Total** | | **4,320** | **105** | | | **5,962** | **91** | |

(1) For each currency, net balance of forward sales and (purchases) against euros.
(2) Equivalent value of forward contracts is calculated by multiplying the amounts in local currencies hedged by the closing rate.
(3) Difference in value reflects the difference between historical equivalent value and equivalent value at closing price.

Fair value of forward currency contracts at December 31, 2011 is calculated on the basis of exchange rates published by the European Central Bank (ECB) or, in the absence of quotation by the ECB, on the basis of rates published by Natixis. This valuation is comparable to the procedure utilized for information purposes by the banks with which these forward currency contracts were entered into.

With the exception of Mexico, Tunisia, the People's Republic of China and Turkey (individually representing less than 6% and together less than 12% of Group revenues), each entity bills and is billed in local currency. Consequently, Group exposure to currency risk is borne by the parent company. The table below, showing foreign currency exposure, lists all of the parent company's foreign currency assets and liabilities, together with the net value of forward transactions unexpired at December 31, 2011 and December 31, 2010:

| | 2011 | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (In thousands of currencies) | USD | AUD | BRL | CAD | CHF | DKK | GBP | HKD | HRK | INR | JPY | PLN | RON | SEK | SGD | TWD | ZAR |
| Carrying position to be hedged: | | | | | | | | | | | | | | | | | |
| Trade account receivables | 21,203 | 580 | 5,704 | 1,158 | - | 1 | (2) | 7,349 | 374 | 5,035 | 198 | (2) | (1,355) | 17 | - | 16,717 | (9) |
| Cash | 835 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Trade payables | (11,080) | (2,005) | (4,912) | (9) | (88) | (1,238) | (1,346) | (27) | (308) | (5,888) | (178,875) | (1,878) | (265) | (5,702) | (976) | 307 | (976) |
| **Total** | **10,958** | **(1,425)** | **791** | **1,149** | **(88)** | **(1,238)** | **(1,347)** | **7,323** | **65** | **(853)** | **(178,677)** | **(1,880)** | **(1,620)** | **(5,685)** | **(976)** | **17,025** | **(986)** |
| Nominal net of hedges | (11,913) | 1,417 | - | (1,168) | 81 | 1,739 | 1,361 | (7,334) | (116) | - | 200,780 | 1,399 | 1,618 | 5,585 | 759 | (14,630) | 799 |
| **Net residual position** | **(956)** | **(8)** | **791** | **(19)** | **(7)** | **501** | **14** | **(11)** | **(50)** | **(853)** | **22,103** | **(481)** | **(2)** | **(100)** | **(217)** | **2,395** | **(186)** |
| Equivalent value in euros at closing rate | (739) | (6) | 328 | (14) | (6) | 67 | 16 | (1) | (7) | (12) | 221 | (108) | (1) | (11) | (129) | 61 | (18) |
| **Analysis of sensitivity to currency fluctuations** | | | | | | | | | | | | | | | | | |
| Closing rate | 1.294 | 1.272 | 2.416 | 1.322 | 1.216 | 7.434 | 0.835 | 10.051 | 7.537 | 68.713 | 100.200 | 4.458 | 4.323 | 8.912 | 1.682 | 39.192 | 10.483 |
| 5% currency depreciation relative to closing rate | | | | | | | | | | | | | | | | | |
| Closing rates parity depreciated by 5% | 1.359 | 1.336 | 2.537 | 1.388 | 1.276 | 7.806 | 0.877 | 10.554 | 7.914 | 72.149 | 105.210 | 4.681 | 4.539 | 9.358 | 1.766 | 41.152 | 11.007 |
| Currency transalation impact | 35 | - | (16) | 1 | - | (3) | (1) | - | - | 1 | (11) | 5 | - | 1 | 6 | (3) | 1 |
| Impact on stockholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 5% currency appreciation relative to closing rate | | | | | | | | | | | | | | | | | |
| Closing rates parity appreciated by 5% | 1.229 | 1.209 | 2.295 | 1.255 | 1.155 | 7.062 | 0.794 | 9.548 | 7.160 | 65.277 | 95.190 | 4.235 | 4.107 | 8.466 | 1.598 | 37.232 | 9.959 |
| Currency transalation impact | (39) | (0) | 17 | (1) | (0) | 4 | 1 | (0) | (0) | (1) | 12 | (6) | (0) | (1) | (7) | 3 | (1) |
| Impact on stockholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

| In thousands of currencies | 2010 | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | USD | AUD | BRL | CAD | CHF | DKK | GBP | HKD | HRK | INR | JPY | PLN | RON | SEK | SGD | TWD | ZAR |
| Carrying position to be hedged: | | | | | | | | | | | | | | | | | |
| Trade account receivables | 14,585 | (1,391) | 3,134 | 1,035 | - | (699) | (934) | 5,424 | 568 | - | (110,509) | 1,787 | 536 | (4,965) | (38) | 26,330 | 2,494 |
| Cash | 285 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Trade payables | (5,001) | (5) | (2,269) | - | (55) | (254) | (73) | - | (15) | (5,586) | (11,707) | (162) | (81) | 170 | (531) | (5,685) | - |
| **Total** | **9,869** | **(1,396)** | **865** | **1,035** | **(55)** | **(953)** | **(1,007)** | **5,424** | **553** | **(5,586)** | **(122,216)** | **1,625** | **455** | **(4,795)** | **(569)** | **20,645** | **2,494** |
| Nominal net of hedges | (10,193) | 1,424 | - | (1,030) | 173 | 1,032 | 1,033 | (5,237) | (365) | 4,068 | 142,451 | (1,650) | (1,602) | 5,035 | 440 | (23,696) | (3,452) |
| **Net residual position** | **(324)** | **28** | **865** | **5** | **118** | **79** | **26** | **187** | **188** | **(1,518)** | **20,235** | **(25)** | **(1,147)** | **240** | **(129)** | **(3,051)** | **(958)** |
| Equivalent value in euros at closing rate | (242) | 21 | 390 | 4 | 94 | 11 | 30 | 18 | 25 | (25) | 186 | (6) | (269) | 27 | (75) | (75) | (108) |

**Analysis of sensitivity to currency fluctuations**

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Closing rate | 1.336 | 1.314 | 2.218 | 1.332 | 1.250 | 7.454 | 0.861 | 10.386 | 7.383 | 59.758 | 108.650 | 3.975 | 4.262 | 8.966 | 1.714 | 40.578 | 8.863 |
| 5% currency depreciation relative to closing rate | | | | | | | | | | | | | | | | | |
| Closing rates parity depreciated by 5% | 1.403 | 1.379 | 2.329 | 1.399 | 1.313 | 7.826 | 0.904 | 10.905 | 7.752 | 62.746 | 114.083 | 4.174 | 4.475 | 9.414 | 1.799 | 42.607 | 9.306 |
| Currency transalation impact | 12 | (1) | (19) | (0) | (4) | (1) | (1) | (1) | (1) | 1 | (9) | 0 | 13 | (1) | 4 | 4 | 5 |
| Impact on stockholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 5% currency appreciation relative to closing rate | | | | | | | | | | | | | | | | | |
| Closing rates parity appreciated by 5% | 1.269 | 1.248 | 2.107 | 1.266 | 1.188 | 7.081 | 0.818 | 9.866 | 7.014 | 56.770 | 103.218 | 3.776 | 4.049 | 8.517 | 1.628 | 38.549 | 8.419 |
| Currency transalation impact | (13) | 1 | 21 | 0 | 5 | 1 | 2 | 1 | 1 | (1) | 10 | (0) | (14) | 1 | (4) | (4) | (6) |
| Impact on stockholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

## NOTE 13.7 COMMITMENTS GIVEN AND RECEIVED

### Commitments Given

| (in thousands of euros) | Payments due by period | | | |
|---|---|---|---|---|
| Contractual commitments | Less than 1 year | Between 1 to 5 years | More than 5 years | Total |
| Rental contracts : offices | 4,224 | 10,994 | 606 | 15,824 |
| Rental contracts : others [1] | 2,203 | 1,584 | - | 3,787 |
| **Total rental contracts** | **6,427** | **12,578** | **606** | **19,611** |
| Other guarantees: sureties [2] | 1,263 | 15 | 1,003 | 2,281 |

(1) These contracts mainly cover IT and office equipment.
(2) This mainly concerns sureties given by banks on the company's behalf, or given by the company to financial institutions against loans made by the latter to its subsidiaries.

Rentals booked as expenses in 2011 amounted to €10,548,000.
Within the framework of the signature in 2009 of €14,000,000 in cash credit facilities expiring at June15 and June 23, 2011, the Group had granted to two of its banks a €10,000,000 mortgage promise on buildings at its Bordeaux-Cestas industrial site. These facilities were not renewed in 2011 (see note 13.4), and the corresponding commitment had therefore ceased to exist at December 31, 2011.

### Commitments Received

The company's German subsidiary, Lectra Deutschland GmbH, has access to a confirmed bank credit facility of €1,000,000 intended for the giving of guarantees. This facility is generally renewed annually.

## NOTE 14 TRADE AND OTHER PAYABLES

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Trade payables | 20,229 | 16,263 |
| Social debts | 15,360 | 17 344 |
| Fiscal debts | 4,960 | 5,208 |
| Down-payments from customers | 5,405 | 8,604 |
| Other current payables | 742 | 1,701 |
| **Total** | **46,696** | **49,120** |

The €3,966,000 increase in trade accounts payables compared to December 31, 2010 arises primarily from the sharp rise in volumes purchased for the production of CAD/CAM equipment and spare parts and consumables.
Moreover, down-payments from customers decrease by €3,199,000 compared to December 31, 2010, due to the fall in order volumes in the fourth quarter of 2011.
Other current liabilities consist primarily in financial instruments used to hedge interest-rate risk on a portion of the medium-term bank loan adjusted to fair value, i.e. €326,000, at December 31, 2011, compared with €1,163,000 at December 31, 2010.

## NOTE 15 DEFERRED REVENUES

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Deferred recurring software evolution and services contracts | 33,546 | 33,458 |
| Other deferred revenues [1] | 2,176 | 2,377 |
| **Total** | **35,722** | **35,835** |

(1) Other deferred revenues mainly correspond to invoiced services, which were not completed at year-end.

The counterpart of "Deferred recurring software evolution and services contracts" and "Other deferred revenues" is recorded for the same amount (plus VAT and related taxes) in "Trade accounts receivable" in the statement of financial position (see note 8).

## NOTE 16 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

| (in thousands of euros) | Provisions for litigation | Provisions for warranty | Other provisions | Total |
|---|---|---|---|---|
| **Provisions at January 1, 2010** | **1,286** | **313** | **952** | **2,551** |
| Additional provisions | 665 | 754 | 447 | 1,866 |
| Used during the year | (333) | (592) | (700) | (1,625) |
| Unused amounts reversed | (16) | - | - | (16) |
| Exchange rate differences | 97 | - | (1) | 96 |
| **Provisions at December 31, 2010** | **1,699** | **475** | **698** | **2,872** |

| (in thousands of euros) | Provisions for litigation | Provisions for warranty | Other provisions | Total |
|---|---|---|---|---|
| **Provisions at January 1, 2011** | **1,699** | **475** | **698** | **2,872** |
| Additional provisions | 959 | 906 | 326 | 2,191 |
| Used during the year | (423) | (845) | (364) | (1,632) |
| Unused amounts reversed | (59) | (58) | (63) | (180) |
| Exchange rate differences | (95) | - | (4) | (99) |
| **Provisions at December 31, 2011** | **2,081** | **478** | **593** | **3,152** |

### Potential Liabilities

The Group has no knowledge, at the date of Board of Directors' meeting who has drawn up the accounts, of any potential liability at December 31, 2011.

To the Group's knowledge, there were no proceedings pending at December 31, 2011, other than those for which provision has been made, that could have a material negative impact on the financial condition of the Group.

### Environmental Risks

Given the nature of its business the Group is not exposed to any environmental risks.

## NOTE 17 ADDITIONAL DISCLOSURE CONCERNING FINANCIAL INSTRUMENTS

The Group has designated the following main categories of financial assets and liabilities:

| At december 31, 2011 | IAS 39 category | Carried at amortized cost | Carried at cost | Carried at fair value through profit or loss | Carried at fair value through with changes recognized in equity | Carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Loans, deposits and guarantees | Loans and receivables | | X | | | - | - |
| Other non current financial assets | Loans and receivables | | X | | | 989 | 989 |
| Trades account receivables | Loans and receivables | | X | | | 44,533 | 44,533 |
| Other current assets | Loans and receivables | | X | | | 6,346 | 6,346 |
| Derivatives not designated as hedges | Financial assets at fair value through profit and loss | | | X | | - | - |
| Derivatives designated as hedges [1] | Financial assets at fair value with changes recognized in equity | | | | X | - | - |
| Cash and cash equivalents | Financial assets at fair value through profit and loss | | | X | | 26,320 | 26,320 |
| **Total financial assets** | | | | | | **78,188** | **78,188** |
| Interest-bearing bank loans | Financial liabilities carried at amortized cost | X | | | | 15,920 | 15,920 |
| Repayable advance OSEO | Financial liabilities carried at amortized cost | X | | | | 1,769 | 1,769 |
| Cash facilities | Financial liabilities carried at amortized cost | X | | | | - | - |
| Derivatives not designated as hedges | Financial liabilities at fair value through profit and loss | | | X | | 105 | 105 |
| Derivatives designated as hedges [1] | Financial liabilities at fair value with changes recognized in equity | | | | X | 326 | 326 |
| Trade payables and other current liabilities | Financial liabilities carried at amortized cost | X | | | | 46,265 | 46,265 |
| **Total financial liabilities** | | | | | | **64,385** | **64,385** |

(1) Concerns swaps intended to hedge a portion of the bank borrowing against interest-rate risk. Trade payables and other current liabilities have been restated for this amount at December 31, 2011.

| At december 31, 2010 | IAS 39 category | Carried at amortized cost | Carried at cost | Carried at fair value through profit or loss | Carried at fair value through with changes recognized in equity | Carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Loans, deposits and guarantees | Loans and receivables | | X | | | - | - |
| Other non current financial assets | Loans and receivables | | X | | | 998 | 998 |
| Trades account receivables | Loans and receivables | | X | | | 43,771 | 43,771 |
| Other current assets | Loans and receivables | | X | | | 4,674 | 4,674 |
| Derivatives not designated as hedges | Financial assets at fair value through profit and loss | | | X | | 91 | 91 |
| Derivatives designated as hedges [1] | Financial assets at fair value with changes recognized in equity | | | | X | - | - |
| Cash and cash equivalents | Financial assets at fair value through profit and loss | | | X | | 30,174 | 30,174 |
| **Total financial assets** | | | | | | **79,708** | **79,708** |
| Interest-bearing bank loans | Financial liabilities carried at amortized cost | X | | | | 30,320 | 30,320 |
| Repayable advance OSEO | Financial liabilities carried at amortized cost | X | | | | 2,279 | 2,279 |
| Cash facilities | Financial liabilities carried at amortized cost | X | | | | - | - |
| Derivatives not designated as hedges | Financial liabilities at fair value through profit and loss | | | X | | - | - |
| Derivatives designated as hedges [1] | Financial liabilities at fair value with changes recognized in equity | | | | X | 1,162 | 1,162 |
| Trade payables and other current liabilities | Financial liabilities carried at amortized cost | X | | | | 47,958 | 47,958 |
| **Total financial liabilities** | | | | | | **81,719** | **81,719** |

(1) Concerns swaps intended to hedge a portion of the bank borrowing against interest-rate risk. Trade payables and other current liabilities have been restated for this amount at December 31, 2010.

Fair value of loans and trade accounts receivable, suppliers and other current liabilities is identical to their book value. Group borrowings essentially comprise floating-rate borrowings (excluding hedges where applicable). Consequently, fair value of financial borrowings corresponds to their face value.

By convention, a minus sign in the tables of notes to the income statement represents a charge for the year, and a plus sign an income or gain for the year. To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2011 and 2010 are also provided at 2010 exchange rates ("like-for-like"), as indicated in the notes concerned.

## NOTE 18 REVENUES

In 2011, no single customer represents more than 6% of consolidated revenues, the ten largest customers combined account for less than 20% of revenues and the 20 largest customers for less than 25%.

### NOTE 18.1 REVENUES BY GEOGRAPHIC REGION

In 2011, nearly 85% of total revenues was generated in 10 countries or country groups (Germany and Eastern Europe, Brazil, China, South Korea, Spain, the United States and Mexico, France, Italy, Japan, and Portugal), none of which individually accounts for more than 15%.

| | 2011 | | | 2010 | | Changes 2011/2010 | |
|---|---|---|---|---|---|---|---|
| (in thousands of euros) | Actual | % | At 2010 exchange rates | Actual | % | Actual | Like-for-like |
| Europe, of which : | 98,712 | 48% | 98,646 | 97,314 | 51% | +1% | +1% |
| – France | 20,129 | 10% | 20,129 | 19,230 | 10% | +5% | +5% |
| Americas | 43,835 | 21% | 45,784 | 40,753 | 21% | +8% | +12% |
| Asia-Pacific | 52,660 | 26% | 53,560 | 39,934 | 21% | +32% | +34% |
| Other countries | 10,716 | 5% | 10,885 | 12,289 | 7% | –13% | –11% |
| **Total** | **205,923** | **100%** | **208,875** | **190,290** | **100%** | **+8%** | **+10%** |

### NOTE 18.2 REVENUES BY PRODUCT LINE

| | 2011 | | | 2010 | | Changes 2011/2010 | |
|---|---|---|---|---|---|---|---|
| (in thousands of euros) | Actual | % | At 2010 exchange rates | Actual | % | Actual | Like-for-like |
| Software, of which : | 55,057 | 27% | 55,659 | 53,452 | 28% | +3% | +4% |
| – New licenses | 25,276 | 12% | 25,646 | 23,641 | 12% | +7% | +8% |
| – Software evolution contracts | 29,781 | 14% | 30,014 | 29,811 | 16% | –0% | +1% |
| CAD/CAM equipment | 63,007 | 31% | 64,599 | 51,734 | 27% | +22% | +25% |
| Hardware maintenance and on-line services | 34,657 | 17% | 34,855 | 35,777 | 19% | –3% | –3% |
| Spare parts and consumables | 43,739 | 21% | 44,251 | 40,205 | 21% | +9% | +10% |
| Training and consulting services | 8,932 | 4% | 8,975 | 8,579 | 5% | +4% | +5% |
| Miscellaneous | 532 | 0% | 534 | 543 | 0% | –2% | –2% |
| **Total** | **205,923** | **100%** | **208,875** | **190,290** | **100%** | **+8%** | **+10%** |

## NOTE 18.3 BREAKDOWN OF REVENUES BETWEEN NEW SYSTEMS SALES AND RECURRING REVENUES

| | 2011 | | | 2010 | | Changes 2011/2010 | |
|---|---|---|---|---|---|---|---|
| (in thousands of euros) | Actual | % | At 2010 exchange rates | Actual | % | Actual | Like-for-like |
| Revenues from new systems sales [1] | 97,746 | 47% | 99,754 | 84,497 | 44% | +16% | +18% |
| Recurring revenues [2], of which: | 108,177 | 53% | 109,121 | 105,793 | 56% | +2% | +3% |
| – recurring contracts | 62,579 | 30% | 63,013 | 63,787 | 34% | –2% | –1% |
| – other recurring revenues on the installed base | 45,599 | 22% | 46,108 | 42,006 | 22% | +9% | +10% |
| **Total** | **205,923** | **100%** | **208,875** | **190,290** | **100%** | **+8%** | **+10%** |

(1) Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, PC's and peripherals, and related services.
(2) Recurring revenues fall into two categories:
- software evolution, hardware maintenance and online support contracts, which are renewable annually,
- revenues from sales of spare parts and consumables, and punctual interventions, on the installed base, which are statistically recurrent.

## NOTE 18.4 BREAKDOWN OF REVENUES FROM NEW SYSTEMS SALES BY MARKET SECTOR

| | 2011 | | | 2010 | | Changes 2011/2010 | |
|---|---|---|---|---|---|---|---|
| (in thousands of euros) | Actual | % | At 2010 exchange rates | Actual | % | Actual | Like-for-like |
| Fashion (apparel, accessories, footwear) | 47,777 | 49% | 48,692 | 46,825 | 55% | +2% | +4% |
| Automotive | 37,558 | 38% | 38,477 | 21,550 | 26% | +74% | +79% |
| Furniture | 6,067 | 6% | 6,050 | 6,599 | 8% | –8% | –8% |
| Other industries | 6,344 | 6% | 6,535 | 9,523 | 11% | –33% | –31% |
| **Total** | **97,746** | **100%** | **99,754** | **84,497** | **100%** | **+16%** | **+18%** |

## NOTE 18.5 BREAKDOWN OF REVENUES BY CURRENCY

| | 2011 | 2010 |
|---|---|---|
| Euro | 51% | 52% |
| U.S. dollar | 29% | 26% |
| Japanese yen | 4% | 4% |
| British pound | 3% | 3% |
| Chinese yuan | 6% | 5% |
| Other currencies [1] | 7% | 10% |
| **Total** | **100%** | **100%** |

(1) No other single currency represents more than 2% of total revenues.

## NOTE 19 COST OF GOODS SOLD AND GROSS PROFIT

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| **Revenues** | **205,923** | **190,290** |
| **Cost of goods sold,** of which: | **(61,613)** | **(54,193)** |
| – purchases and freight-in costs | (56,970) | (49,491) |
| – inventory movement, net | 2,046 | 1,168 |
| – industrial added value | (6,689) | (5,870) |
| **Gross profit** | **144,310** | **136,097** |
| (in % of revenues) | 70.1% | 71.5% |

Staff costs and other operating expenses incurred in the performance of service activities are not included in cost of goods sold but are recognized in "Selling, general and administrative expenses".

## NOTE 20 RESEARCH AND DEVELOPMENT

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Fixed staff costs | (15,998) | (14,024) |
| Variable staff costs | (48) | (80) |
| Other operating expenses | (1,705) | (1,634) |
| Depreciation expenses | (492) | (369) |
| **Total before research tax credit** | **(18,243)** | **(16,107)** |
| (in % of revenues) | 8.9% | 8.5% |
| Research tax credit | 6,780 | 6,560 |
| **Total** | **(11,463)** | **(9,547)** |

## NOTE 21 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Fixed staff costs | (58,447) | (57,202) |
| Variable staff costs | (8,589) | (9,968) |
| Other operating expenses | (32,828) | (31,775) |
| Depreciation expenses | (2,756) | (2,824) |
| Net provisions | (1,305) | (1,932) |
| **Total** [1] | **(103,925)** | **(103,701)** |
| (in % of revenues) | 50.5% | 54.5% |

(1) "Selling, general and administrative expenses" do not include the expenses comprised in "Industrial added value" (see note 19), which amounted to €6,689,000 in 2011 and €5,870,000 in 2010.

### Fees Paid to Group Auditors and Companies in Their Network

In 2011, other operating expenses comprise €777,000 in respect of the audit of all Group companies, of which €427,000 for PricewaterhouseCoopers, €244,000 for KPMG and €106,000 for other audit firms, excluding other services provided. The corresponding amount in 2010 was €750,000.

Fees paid by the Group in 2011 to the statutory auditors in respect of the audit and other services performed by their networks to consolidated entities were €774,000, of which €526,000 for PricewaterhouseCoopers and €248,000 for KPMG:

| | PWC | | | | KPMG | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | % | | Amount | | % | |
| (in thousands of euros) | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Audit | | | | | | | | |
| Statutory audits, certification and examination of individuals and consolidated financial statements | | | | | | | | |
| Issuer (Lectra SA) | 157 | 142 | 30% | 26% | 137 | 124 | 55% | 58% |
| Fully-consolidated subsidiaries | 270 | 307 | 51% | 56% | 107 | 87 | 43% | 41% |
| Others services directly related to the Auditors' engagement | | | | | | | | |
| Issuer (Lectra SA) | - | - | - | - | - | - | - | - |
| Fully-consolidated subsidiaries | - | - | - | - | - | - | - | - |
| **Sub-total** | **427** | **449** | **81%** | **82%** | **244** | **211** | **98%** | **99%** |
| Other services to consolidated entities | | | | | | | | |
| Legal, tax and social reviews | 99 | 96 | 19% | 18% | 4 | 3 | 2% | 1% |
| **Sub-total** | **99** | **96** | **19%** | **18%** | **4** | **3** | **2%** | **1%** |
| **Total** | **526** | **545** | **100%** | **100%** | **248** | **214** | **100%** | **100%** |

## NOTE 22 NON-RECURRING EXPENSES

There was no non-recurring expense in 2011.

In November 2010, Lectra had decided to close, in 2011, the Huisheim industrial site of its German subsidiary Humantec Industriesysteme GmbH, which was acquired in 2005. Shutdown costs of €719,000 recognized in the 2010 financial statements consisted essentially of provisions for personnel termination, together with costs relating to cancelation of supply contracts with suppliers and, to a lesser degree, asset impairment charges.

In addition, given the persistent adverse impact of the crisis on its activity in Italy, Lectra had decided in December 2010 to implement reorganizational and workforce reduction measures in Lectra Italia Spa. These measures entailed a non-recurring charge of €334,000 in the 2010 financial statements.

## NOTE 23 NON-RECURRING INCOME – LITIGATION WITH INDUYCO PENDING

There was no non-recurring income in 2011.
In a decision of *exequátur* issued on June 27, 2011, the Madrid Court of First Instance recognized the arbitral award rendered against Induyco in October 2009 by an International Arbitral Tribunal seated in London, which had awarded Lectra total damages of €26,016,000 (as at December 31, 2011).
Confirming the validity and enforceability of the award in Spain, this decision represents a major milestone in the settlement of this dispute. Induyco appealed this judgment, and the two parties have submitted their written findings. The Madrid Court of Appeal is expected to hand down its decision in late 2012 or early 2013.
Induyco having appealed the June 27, 2011 decision, this decision does not entail any modification of the recognition of the award in the Group's financial statements: the Group has only recorded the €15,090,000 received in 2010 which resulted in a non-recurring gain of €3,291,000. The €10,925,000 balance still due by Induyco will only be recorded upon its receipt.
The history of the lawsuit is described in the following paragraphs:

### In its ruling on October 21, 2009, the International Court of Arbitration awarded Lectra €26 million in damages and interest (as of December 31, 2011)

In June 2005, Lectra initiated arbitration proceedings against Induyco (a member of the Spanish group El Corte Inglés), the former shareholder of Investronica Sistemas, following the acquisition of this company. Under the stock purchase agreement signed on April 2, 2004, the parties agreed that any disputes arising out of the stock purchase agreement would be finally settled by international arbitration under the Rules of the International Chamber of Commerce in London, England.
In its decision of October 21, 2009, the international arbitral tribunal awarded Lectra €21.7 million[1] (plus interest):
- award on the merits: €15.1 million (plus interest since June 30, 2005 and post-award interest until payment);
- award as costs: €6.6 million (plus post-award interest from the time of the decision until payment).

Total interest awarded by the tribunal from initiation of the arbitral procedure to the date of the decision amounts to €3.4 million, bringing the total amount of the award plus interest awarded at the date of the decision to €25.2 million. Interest accrued between October 28, 2009 and December 31, 2011, amounts to €0.8 million, bringing the total amount at that date to €26 million.

### The Madrid Court of Appeals issued a decision overturning and vacating the interim order that suspended execution of the first demand bank guarantees provided to Lectra by Induyco

Following notification of the arbitral award, Lectra called on the first demand bank guarantees provided by Induyco in order to secure its contractual obligations, and requested Induyco to pay the full amount of the award plus interest. In response, Induyco initiated a judicial action in Spain seeking to block the calls on the grounds that Lectra first had to obtain recognition and enforcement of the award in Spain.
In November 2009, Induyco obtained an interim order temporarily suspending the operation of the first demand bank guarantees. Lectra appealed and during the pendency of the appeal, the Madrid Court of First Instance stayed further proceedings.
On September 20, 2010, the Madrid Court of Appeals issued a decision overturning and vacating the interim order entered by the Madrid Court of First Instance, and thereby lifted the temporary injunction. The Court of Appeals also ordered Induyco to pay Lectra's legal costs.

(1) In a clarification of its ruling requested by the parties, in May 2010 the Tribunal rectified a material error in the amount of the legal costs awarded to Lectra on October 21, 2009. This explains the minor difference ($220,000 or approximately €0.15 million) relative to the figures previously published by the company.

Following the appellate court's decision, Lectra called on the first demand guarantees and in accordance with their terms Lectra received €15.1 million on October 7, 2010.
On October 4, 2010, the Madrid Court of First Instance dismissed the suit brought by Induyco in which it sought to prevent Lectra from calling on the demand guarantees until Lectra had obtained a Spanish court judgment recognizing and enforcing the arbitral award. In its earlier judgment, the Madrid Court of First Instance had temporarily enjoined Lectra from calling on the bank guarantees. In a further effort to interfere with Lectra's successful calls on the bank guarantees, Induyco appealed the court's decision. On March 30, 2011, the Madrid Court of Appeals rejected all other related demands of Induyco under this appeal.

### The London High Court of Justice Dismissed Induyco's Action to Set Aside the Award Rendered by the International Arbitral Tribunal

In parallel with the action in Spain (which sought to block the calls on the demand guarantees), Induyco commenced an action in England to set aside the award. On July 1, 2010, the London High Court of Justice dismissed this action in its entirety, denied leave to appeal and awarded Lectra its costs and fees of defending the action.
The arbitral decision is binding on Induyco under international law. The decisions of the Madrid Court of Appeals and the London High Court of Justice strengthened Lectra in its view that the suits in Spain commenced by Induyco were entirely groundless and reinforced its commitment to enforce its rights and to recover the amounts due to it under the arbitral award.

### Lectra Obtains *Exequátur* in Spain of the Award Rendered by the International Arbitral Tribunal against Induyco

Lectra filed a procedure of *exequátur* before the Madrid Court of First Instance at the end of December 2010, in order to enforce in Spain the arbitral award rendered in October 2009 and recover the amounts due by Induyco.
In a decision of *exequátur* issued on June 27, 2011, the Madrid Court of First Instance recognized the arbitral award rendered against Induyco by the International Arbitral Tribunal. It has thus confirmed the award is valid and enforceable in Spain and rejected Induyco's challenge to Lectra's *exequátur*.
This decision of the Madrid Court of First Instance, against which Induyco has appealed (the two parties' conclusions were filed at the end of 2011), represents a major milestone in the settlement of this dispute. It reinforces Lectra in its commitment to vigorously enforce its rights and to recover the full amount due to it under the award.

### The Company Has only Recorded in its Accounts €15.1 Million on the Full Amount of the Arbitral Award of €26 Million

At December 31, 2009, in view of, (a) the suspension of the calls for €15.1 million on the bank guarantees and Induyco's failure to pay voluntarily the award; and (b) the proceeding commenced by Induyco in England, which challenged the award's validity, the company had not recognized in its financial statements the amount awarded by the arbitral tribunal, and the accounting methods applied to the arbitration procedure, as adopted at December 31, 2008, remained unchanged.
The September 20, 2010 decision of the Madrid Court of Appeals and the receipt of €15,090,000 resulted, in the 2010 financial statements, in a €6,055,000 reduction in goodwill and a net non-recurring gain of €3,291,000 resulting from a non-recurring gain of €9,006,000 less legal costs (€5,715,000) previously recognized in other current assets.
Induyco having appealed the June 27, 2011 Madrid Court of First Instance decision, this decision does not entail any modification of the recognition of the award in the Group's financial statements: the balance (€10.9 million) of the total amount of the award (€26 million at December 31, 2011) still due by Induyco was not recorded in the financial statements and will only be recorded upon its receipt.

The aggregate amount of legal and expert fees, procedural and other costs incurred by Lectra since the beginning of the procedure and until December 31, 2011 by Lectra amounts to €11.4 million. Of this amount, €4.2 million were expensed as operating expenses in 2005 and 2006, and €5.7 million incurred from January 1, 2006 to October 28, 2009 were recognized in current assets in the statement of financial position.
Legal fees and costs of the legal proceedings instituted by Induyco in Spain and England since October 28, 2009 (€1.5 million, of which €0.2 million in 2011), included in the above total amount, are expensed directly in charges over the period in which they took place. Of the total amount, €0.6 million relates to the English proceedings brought by Induyco to set aside the award, of which €0.5 million were reimbursed by Induyco in October 2010.
As all of the costs incurred by Lectra (excluding those relative to the procedures pending in Spain) have already been paid, the execution of the arbitral decision will result in a cash inflow equal to the balance of the award still owed by Induyco.

## NOTE 24 STAFF

### NOTE 24.1 TOTAL PERSONNEL EXPENSES

The table below combines all fixed and variable personnel costs for the Group.

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Research and development | (16,046) | (14,104) |
| Selling, general and administrative | (67,036) | (67,170) |
| Manufacturing, logistics and purchasing [1] | (4,585) | (4,016) |
| **Total** | **(87,667)** | **(85,290)** |

(1) "Manufacturing, logistics and purchasing" personnel expenses are included in the cost of goods sold, in "Industrial added value" (see note 19).

## NOTE 24.2 WORKFORCE AT DECEMBER 31

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Parent company [1] | 662 | 628 |
| Subsidiaries [2], of which: | 676 | 698 |
| Europe | 307 | 347 |
| Americas | 144 | 143 |
| Asia - Pacific | 157 | 138 |
| Other countries | 68 | 70 |
| **Total** | **1,338** | **1,326** |

(1) In 2011 as in 2010, expatriates are attached to the economic entities for which they work.
(2) Refers to all consolidated and non-consolidated Group companies.

### Analysis of Workforce by Function

| | 2011 | 2010 |
|---|---|---|
| Marketing, Sales | 214 | 219 |
| Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance) | 451 | 447 |
| Research and Development | 218 | 210 |
| Purchasing, Production, Logistics | 154 | 158 |
| Administration, Finance, Human Resources, Information Systems | 301 | 292 |
| **Total** | **1,338** | **1,326** |

## NOTE 24.3 CONTRIBUTIONS TO PENSION PLANS

Contributions to compulsory or contractual pension plans are expensed in the year in which they are paid.
During 2011, subsidiaries subject to defined-contribution pension plans booked a sum of €3,399,000 under personnel costs in respect of their contributions to these pension or retirement funds. The main subsidiaries concerned, in addition to the parent company, were those in Italy, the United States, Belgium and the United Kingdom.

## NOTE 24.4 INDIVIDUAL TRAINING RIGHTS

No provision is made for parent company employee training entitlements within the framework of individual training rights applicable in France since future training represents a use value in return for the Group. The accumulated number of hours corresponding to rights acquired at December 31, 2011 by employees of the parent company is 66,156. Employees have not yet exercised their rights to 65,306 hours of training.

## NOTE 24.5 EMPLOYEE PROFIT-SHARING AND INCENTIVE PLANS

### Profit-Sharing Plan

An amendment to the October 1984 employee profit-sharing plan, applicable solely to parent company employees, was signed in October 2000. Under this plan, a portion of the special employee profit-sharing reserve set aside annually may be invested in equity securities, in a corporate savings plan. Consequently, beneficiaries may choose between five types of funds, one consisting exclusively of Lectra shares, at their discretion.

In light of the application of the new French Government measures concerning the utilization of tax loss carryforwards and the improvement in the company's earnings in 2011, the company will pay €421,000 into the employee profit-sharing plan in 2012, in respect of 2011. It made no payment into the employee profit-sharing plan in 2011, in respect of 2010.

### Incentive Plan

A collective employee incentive plan, applicable solely to parent company employees, was signed for the first time in September 1984 and renewed every year since that date. The most recent incentive plan signed in June 2011 covers the period 2011-2013.

In light of the Group's profit in 2011, the incentive payment in respect of fiscal 2011 amounts to €1,266,000 (€2,429,000 in respect of 2010). An interim payment of €638,000 was made in November 2011, the balance outstanding to be paid at the beginning of 2012.

## NOTE 24.6 COMPENSATION OF GROUP MANAGEMENT

The Group management team consists of two executive directors: the Chairman of the Board of Directors and the Chief Executive Officer; the Chief Financial Officer, and the Chief Human Capital and Information Officer.

The executive directors *(dirigeants mandataires sociaux)* are not the beneficiaries of any special arrangement or specific benefits concerning deferred compensation, severance compensation, or pension liabilities committing the company to pay any form of indemnity or benefit in the event of termination of their functions, or at the time of their retirement (they are not under any employment contract to the company), or more generally subsequent to the termination of their functions. The company does not award them bonuses in any form.

Compensation of members of the management team, executive directors or other, comprises a fixed portion and a variable portion.

Variable compensation is set in accordance with performance quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets. In 2011, performance criteria were expanded by the Board of Directors and now include four criteria reflecting the company's strategy of profitable activity and earnings growth, namely:

- consolidated income before tax, excluding net financial expenses and non-recurring items (accounting for 50%);
- consolidated free cash flow excluding net financial expenses, non-recurring items, income tax and after certain restatements of certain items (accounting for 15%);
- a criterion measuring the contributive value of growth in sales activity (accounting for 25%);
- a criterion measuring the contributive value of recurring contracts (accounting for 10%).

Below certain thresholds this variable compensation is equal to zero; if annual targets are met it is 100%; and it is capped at 200% if annual targets are exceeded. Between these thresholds, it is calculated on a linear basis.

Conditional upon fulfillment of annual targets, variable compensation for 2011 and 2010 was equal to 60% of total compensation for the Chairman of the Board of Directors and Chief Executive Officer and 30% for the Chief Financial Officer and the Chief Human Capital and Information Officer. Variable compensation may represent a higher percentage if these annual objectives are exceeded.

Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent with the evaluation of executive directors' performance, the company's medium-term strategy and the general macroeconomic conditions, and in particular those of the geographic markets and market sectors in which the company operates. After the close of each fiscal year, the Committee verifies the annual application of these rules and the final amount of variable compensation paid, on the basis of the audited financial statements.
These criteria and targets apply to the four members of the Group management and to around fifteen managers of the parent company, Lectra SA, the only differences concerning the portion relating to target-based variable compensations, which is set individually for each manager.
In 2011, the variable portion of these persons' compensation represented 107% of the amount payable on fulfilment of annual targets, the annual income target having been exceeded but the targets set for the other three criteria having been missed.
In 2010, the annual targets were very largely exceeded, in terms both income and free cash flow. The effect of this has been to cap the variable portion of these persons' compensation at 200%.
Aggregate compensation and benefits in kind paid to the Group management team in 2011 (excluding directors' fees for the two executive directors), amounted to €1,705,000, of which €844,000 in fixed compensation, €819,000 in variable compensation, and €42,000 in benefits in kind.
Aggregate compensation and benefits in kind paid to these same managers in respect of 2010 amounted to €2,315,000, of which €783,000 in fixed compensation, €1,485,000 in variable compensation, and €47,000 in benefits in kind.
Only the Chief Financial Officer and the Chief Human Capital and Information Officer were granted stock options in the course of the year (respectively 73,088 and 49,976). A charge of €45,000 and €30,000 was recognized in respect of 2011 as a result of the new stock option plan together with prior-year plans concerning these two beneficiaries (€32,000 and €20,000 in respect of 2010). The two executive directors held no stock options (see note 10.5.5).

### NOTE 24.7 DIRECTORS' FEES

Subject to the approval of the General Meeting of Shareholders on April 27, 2012, €100,000 in directors' fees will be allocated to the four members of the Board with respect to fiscal 2011, unchanged compared to 2010.
In light of the changes in the membership of the Board of Directors in the course of the year, the two executive directors will each receive €25,000, the independent directors who deceased in the year €25,000 and €20,800 and one of the new independant directors will receive €4,200.
Compensation paid to the two non-executive directors consists exclusively of directors' fees.

## NOTE 25 DEPRECIATION AND AMORTIZATION CHARGES

The table below combines all depreciation and amortization charges on tangible and intangible fixed assets (excluding goodwill) and their allocation between income statement items:

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Research and development | (492) | (369) |
| Selling, general and administrative | (2,756) | (2,824) |
| Manufacturing, logistics and purchasing [1] | (561) | (551) |
| **Total** | **(3,809)** | **(3,744)** |

(1) 'Manufacturing, logistics and purchasing' depreciation and amortization charges are included in 'Industrial added value' (see note 19).

## NOTE 26 FINANCIAL INCOME AND EXPENSES

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| **Financial income, of which:** | **656** | **312** |
| Gains on sales of cash equivalents | 288 | 110 |
| Other interest income | 162 | 69 |
| Reversal of provisions for depreciation of investments and loans | 206 | 133 |
| **Financial expenses, of which:** | **(2,204)** | **(3,739)** |
| Bank charges | (682) | (808) |
| Interest expense on borrowings | (1,510) | (2,775) |
| Provisions for impairment of investments and loans | (12) | (156) |
| **Total** | **(1,548)** | **(3,427)** |

Interest expense on borrowings in 2011 comprised €1,487,000 (€2,766,000 in 2010) in interest on the medium term bank loan contracted to finance the public stock buyback tender offer carried out in 2007 (see note 13.2).

## NOTE 27 FOREIGN EXCHANGE LOSS

A foreign exchange translation loss of €165,000 was recognized in 2011 (€1,254,000 in 2010).
In 2010,the loss on the US currency stemmed primarily from the hedges put in place during the period. This arose in particular to the spread between the price of forward sales put in place in the second quarter of 2010 (€1/$1.35) and actual exchange rates at the time of their expiration (€1/$1.27), and from the cost of the dollar puts to cover exposure in the third and fourth quarters of 2010.
At December 31, 2011, as at December 31, 2010, the company held no currency options (see note 13.6).

## NOTE 28 SHARES USED TO COMPUTE EARNINGS PER SHARE

At December 31, 2011 and 2010, the company had not issued any dilutive instrument other than the stock options detailed in note 10.5.

| Basic earnings per share | 2011 | 2010 |
|---|---|---|
| Net income (in thousands of euros) | 19,197 | 15,647 |
| Weighted average number of shares outstanding during the period [1] | 28,789,896 | 28,496,413 |
| Weighted average number of treasury shares held during the period | (80,767) | (374,341) |
| Weighted average number of shares used to compute basic earnings per share | 28,709,129 | 28,122,072 |
| **Basic earnings per share** (in euros) | **0.67** | **0.56** |

(1) In 2011, 404,596 stock options were exercised, giving rise to the creation of 404,596 new shares. In 2010, 3,500 stock options were exercised, giving rise to the creation of 3,500 new shares (see note 10).

| Diluted earnings per share | 2011 | 2010 |
|---|---|---|
| Net income (in thousands of euros) | 19,197 | 15,647 |
| Weighted average number of shares outstanding during the period [1] | 28,789,896 | 28,496,413 |
| Weighted average number of treasury shares held during the period | (80,767) | (374,341) |
| Dilutive effect of stock options, under the share repurchase method [2] | 659,667 | 194,444 |
| Weighted average number of shares used to compute diluted earnings per share | 29,368,796 | 28,316,516 |
| **Diluted earnings per share** (en euros) | **0.65** | **0.55** |

(1) In 2011, 404,596 stock options were exercised, giving rise to the creation of 404,596 new shares. In 2010, 3,500 stock options were exercised, giving rise to the creation of 3,500 new shares (see note 10).
(2) In 2011, due to an average share price of €5.67 during the period, the dilutive effect of stock options under the share repurchase method resulted in 659,667 theoretical additional shares (194,444 theoretical additional shares in 2010 due to an average share price of €3.22).

## NOTE 29 INCOME STATEMENT AT CONSTANT EXCHANGE RATES

| | 2011 | | 2010 | Changes 2011/2010 | |
|---|---|---|---|---|---|
| (in thousands of euros) | Actual | At 2010 exchange rates | Actual | Actual | Like-for-like |
| **Revenues** | **205,923** | **208,875** | **190,290** | **+ 8%** | **+ 10%** |
| Cost of goods sold | (61,613) | (61,890) | (54,193) | + 14% | + 14% |
| **Gross profit** | **144,310** | **146,985** | **136,097** | **+ 6%** | **+ 8%** |
| Research and development | (11,463) | (11,463) | (9,547) | + 20% | + 20% |
| Selling, general and administrative expenses | (103,925) | (104,727) | (103,701) | + 0% | + 1% |
| **Income from operations before non-recurring items** | **28,922** | **30,795** | **22,849** | **+ 27%** | **+ 35%** |
| (in % of revenues) | 14.0% | 14.7% | 12.0% | + 2.0 points | + 2.7 points |
| Non-recurring income | - | - | 3,291 | ns | ns |
| Non-recurring expenses | - | - | (1,053) | ns | ns |
| **Income from operations** | **28,922** | **30,795** | **25,087** | **+ 15%** | **+ 23%** |
| (in % of revenues) | 14.0% | 14.7% | 13.2% | + 0.8 point | + 1.5 points |

The company's net operational exposure to foreign exchange fluctuations corresponds to the difference between revenues and total costs denominated in each of these currencies. This exposure mainly concerns the US dollar, which is the principal currency in which business is transacted after the euro. The other currencies having a significant impact on Group exposure to foreign exchange risk are the Japanese yen, the Chinese yuan, and the Brazilian real. The overall currency variations between 2010 and 2011 have decreased 2011 Group revenues by €2,952,000 and income from operations by €1,873,000. The US dollar alone (average parity versus the euro $1.33/€1 in 2010 and $1.39/€1 in 2011) accounts for a decrease of €3,310,000 in revenues and of €2,047,000 in income from operations in the 2011 figures at actual exchange rates, relative to the 2011 figures at 2010 exchange rates.
In 2011, 51% of the Group's consolidated revenues, 91% of its cost of sales, and 71% of its overhead expenses were denominated in euros. These percentages were respectively 29%, 7%, and 14% for the U.S. dollar. The Chinese yuan represented nearly 6% of revenues, the other currencies each representing less than 5%; individually, their share of the cost of sales is negligible and less than 5% of overhead costs.

## NOTE 30 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(in thousands of euros)

| 2011 : quarter ended | March 31 | June 30 | September 30 | December 31 | 2011 |
|---|---|---|---|---|---|
| **Revenues** | **49,777** | **52,352** | **51,186** | **52,608** | **205,923** |
| Cost of goods sold | (14,423) | (15,805) | (15,707) | (15,678) | (61,613) |
| **Gross Profit** | **35,354** | **36,547** | **35,479** | **36,930** | **144,310** |
| Research and development | (2,937) | (3,082) | (2,471) | (2,973) | (11,463) |
| Selling, general and administrative expenses | (26,955) | (26,046) | (24,202) | (26,722) | (103,925) |
| **Income (loss) from operations** | **5,462** | **7,419** | **8,806** | **7,235** | **28,922** |
| **Net Income (loss)** | **3,668** | **5,124** | **5,825** | **4,580** | **19,197** |

(in thousands of euros)

| 2010 : quarter ended | March 31 | June 30 | September 30 | December 31 | 2010 |
|---|---|---|---|---|---|
| **Revenues** | **42,962** | **48,871** | **48,195** | **50,261** | **190,290** |
| Cost of goods sold | (12,153) | (13,538) | (13,499) | (15,002) | (54,193) |
| **Gross Profit** | **30,809** | **35,333** | **34,696** | **35,259** | **136,097** |
| Research and development | (2,527) | (2,594) | (2,058) | (2,368) | (9,547) |
| Selling, general and administrative expenses | (25,297) | (27,383) | (24,380) | (26,641) | (103,701) |
| **Income (loss) from operations before non-recurring items** | **2,985** | **5,356** | **8,258** | **6,250** | **22,849** |
| Non-recurring income | - | - | 3,291 | - | 3,291 |
| Non-recurring expenses | - | - | - | (1,053) | (1,053) |
| **Income (loss) from operations** | **2,985** | **5,356** | **11,549** | **5,197** | **25,087** |
| **Net Income (loss)** | **1,623** | **2,731** | **7,655** | **3,638** | **15,647** |

## NOTE 31 OPERATING SEGMENT INFORMATION

(in thousands of euros)

| 2011 | Europe | Americas | Asia-Pacific | Other countries | Corporate segment | Total |
|---|---|---|---|---|---|---|
| Revenues | 98,712 | 43,835 | 52,660 | 10,716 | - | 205,923 |
| Income (loss) from operations before non-recurring expenses | 8,801 | 612 | 1,632 | 1,386 | 16,491 | 28,922 |

(in thousands of euros)

| 2010 | Europe | Americas | Asia-Pacific | Other countries | Corporate segment | Total |
|---|---|---|---|---|---|---|
| Revenues | 97,314 | 40,753 | 39,934 | 12,289 | 0 | 190,290 |
| Income (loss) from operations before non-recurring expenses | 8,398 | (620) | 17 | 1,667 | 13,387 | 22,849 |

Income from operations before non-recurring items, which is obtained by adding together the income for each segment, is identical to consolidated income from operations before non-recurring items shown in the Group's consolidated financial statements and therefore does not require reconciliation.

## NOTE 32 NON-CASH OPERATING EXPENSES

In 2011, as in 2010, "Non-cash operating expenses" includes unrealized translation gains or losses on short-term balance sheet positions affecting the gain or loss on foreign exchange translation (see note on "translation of statement of financial position items denominated in foreign currency" in accounting rules and methods), additional financial provisions, the impact of measurement of stock options, and reversal of the provision for impairment of investments in non-consolidated subsidiaries.

## NOTE 33 CHANGES IN WORKING CAPITAL REQUIREMENT

In 2011, the increase in the working capital requirement was €9,855,000 and comprises non-recurring disbursements amounting to €987,000. The main variations in the working capital requirement were:

- +€1,646,000 corresponding to an increase in inventories, due to the steep increase in revenues from CAD/CAM equipment and spare parts and consumables;
- +€1,301,000 corresponding to an increase in trade accounts receivable, due to the increase in revenues;
- –€3,606,000 corresponding to an increase in trade accounts payable as a result of the sharp rise in volumes purchased for the production of CAD/CAM equipment and spare parts and consumables;
- +€4,089,000 arising from the increase in the (French) research tax credit receivable, the amount recognized but not received in 2011 (€5,474,000) having been reduced by the income tax charge due in respect of 2011 (€1,385,000);
- +€3,234,000 arising from the decrease in down-payments from customers, due to the fall in order volumes in Q4;
- +€1,851,000 arising from the difference between the variable portion of salaries for the Group and of the incentive plan of the parent company Lectra SA *(prime d'intéressement)* in respect of fiscal 2010 and paid in 2011, and the same amounts recognized in fiscal 2011 and payable in 2012.

In 2010, working capital requirement declined by €15,382,000. This decline stemmed from a combination of non-recurring items relating to receipt of €15,090,000 following the award rendered by the international arbitral tribunal against Induyco and to disbursements arising from restructuring measures implemented in 2009. Apart from these items, the €9,288,000 decline in working capital requirement was due primarily to the following factors:

- a €1,369,000 increase in trade accounts payable as a result of strong activity during the period;
- a €4,861,000 increase in social debts arising primarily from the variable portion of compensation and staff incentive plans recognized in 2010 and paid in 2011;
- a €2,415,000 increase in down payments received from customers;
- –€1,557,000 corresponding to the increase in inventories.

At December 31, 2011, the ratio of accounts receivable net of down payments received and deferred revenues, measured in DSO (Days Sales Outstanding) represented 7 days of revenues (inclusive of VAT), compared with 6 days at December 31, 2010.

## NOTE 34 OTHER INCOME ON INVESTING ACTIVITIES

In 2011, there were no cash flow generated by other income on investing activities.
In 2010, the non-recurring income of €3,291,000 recognized after the receipt of €15,090,000 in respect of the Induyco lawsuit (see note 23) had been transferred from net cash provided by operating activities to net cash provided by investing activities.
Net cash provided by investing activities therefore included €9,346,000 recorded on the line "Award received" reflecting receipt of the award in connection with the Induyco lawsuit. This amount was comprised as follows:

- €6,055,000 arising from the impairment of goodwill on Investronica Sistemas;
- €3,291,000 reflecting non-recurring income transferred from net cash provided by operating activities.

## NOTE 35 PROCEEDS FROM LONG TERM AND SHORT TERM BORROWINGS

The increase in non-current borrowings in 2010 was due to the granting of a repayable advance by OSEO Innovation in France amounting to €400,000 (see note 13.2).
The Group did not contract any new financial debts in 2011.

## NOTE 36 REPAYMENT OF LONG TERM AND SHORT TERM BORROWINGS

In 2011, in compliance with the terms of its €48,000,000 medium-term bank loan, the company proceeded to reimburse the half-yearly installments reduced to €560,000 after deduction of the first voluntary early repayment of €10,000,000 it made on December 31, 2010 in light of its sharply improved cash position in the course of 2010; it reimbursed €3,840,000 in application of the excess cash flow clause, and also made a second voluntary repayment of €10,000,000 on December 31, 2011 ahead of schedule (see note 13.2).
The first two half-yearly installments of €3,840,000 each were repaid on June 30 and December 31, 2010.
Repayment of borrowings in 2011 also concerns public subsidies previously received to finance R&D programs for €531,000 (€125,000 in 2010).

## NOTE 37 FREE CASH FLOW

Free cash flow is equal to net cash provided by operating activities plus cash used in investing activities—excluding cash used for acquisitions of companies—net of cash acquired.

| (in thousands of euros) | 2011 | 2010 |
|---|---|---|
| Net cash (used in) / provided by operating activities | 17,712 | 37,160 |
| Net cash (used in) / provided by investing activities | (3,518) | 7,250 |
| **Free cash flow** | **14,194** | **44,410** |

In 2011, net cash provided by operating activities comprises a €9,855,000 increase in working capital requirement (a decrease of €15,382,000 in 2010).
Details of changes in working capital requirement are provided in note 33 above.
Before non-recurring disbursements of €987,000 free cash flow amounted to €15,181,000.
In 2010, not including €675,000 in non-recurring disbursements and the receipt of €15,090,000 following execution of the bank guarantees arising in connection with the Induyco lawsuit, free cash flow before non-recurring items amounted to €29,995,000.

# STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

*This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.*

*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 compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2011, on:

– the audit of the accompanying consolidated financial statements of Lectra SA;
– the justification of our assessments;
– the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

## I - OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 31 December 2011 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.

## II - JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Your Company systematically performs impairment tests of goodwill at year end and also assesses any impairment indicators, as explained in the notes to the consolidated financial statements "Summary of Accounting Policies" in relation to goodwill, other intangible assets and impairment of fixed assets. We examined the ways this impairment test was implemented as well as the cash flow forecasts and the assumptions upon which these forecasts were based. We verified the appropriateness of the information provided in the notes "Summary of Accounting Policies" and in note 1 "Goodwill".

As explained in the note "Summary of Accounting Policies" concerning deferred taxes, your Company is obliged to make estimates and assumptions with respect to the evaluation of deferred tax assets. In the context of our assessments, our procedures consisted in assessing the overall consistency of the data and the underlying assumptions used to support the evaluation of these

deferred tax assets and in reviewing the company's calculations and the appropriateness of the information provided in note 6.3.

The note 23 outlines the accounting consequences in relation with the treatment of the litigation regarding the Investronica Sistemas acquisition in 2004. In the context of our assessments of the Company's accounting principles, we verified the appropriateness of the accounting methods mentioned above and the information provided in the notes to the financial statements.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

## III - SPECIFIC VERIFICATION

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

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

Mérignac and Neuilly-sur-Seine, February 23rd, 2012

The Statutory Auditors

PricewaterhouseCoopers Audit SA

Bruno Tesnière

KPMG SA

Anne Jallet-Auguste

Éric Junières

# STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF LECTRA SA

Year ended December 31, 2011

*This is a free translation into English of the Statutory Auditors' report 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 Lectra SA, and in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2011.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

– to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and

– to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

## Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

– obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;

– obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;

– determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L. 225-37 of the French Commercial Code.

## Other information

We attest that the Chairman's report sets out the other information required by article L. 225-37 of the French Commercial Code.

Mérignac and Neuilly-sur-Seine, February 23rd, 2012

The Statutory Auditors

PricewaterhouseCoopers Audit

Bruno Tesnière

KPMG SA

Anne Jallet-Auguste

Éric Junières

# BIOGRAPHIES OF LECTRA DIRECTORS AND MEMBERS OF THE GROUP EXECUTIVE COMITTEE

**André Harari**

André Harari, 68, Chairman of the Board of Directors of Lectra since May 3, 2002.
He had been Vice Chairman of Lectra's Board of Directors since 1991, and Vice Chairman and Executive Vice President since 1998. He was a member of the Supervisory Board of Lectra from 1978 to 1990, Compagnie Financière du Scribe having been a minority shareholder of Lectra since its early stage, before taking control of it at the end of 1990. André Harari holds no outside directorships.
André Harari was Chairman and Chief Executive Officer of Compagnie Financière du Scribe (Paris, France), a venture capital firm specializing in technology companies, which he founded in 1975. Together with his brother Daniel Harari, he was the main shareholder in Compagnie Financière du Scribe until its merger with Lectra on April 30, 1998. He began his career with the consulting division of Arthur Andersen (Paris, 1970-1975).
André Harari is a graduate of the École Polytechnique and the École Nationale de la Statistique et de l'Administration Économique (Paris, France). He also holds a doctorate in management science from the University of Paris-Dauphine.

**Daniel Harari**

Daniel Harari, 57, Director and Chief Executive Officer of Lectra since May 3, 2002, Chairman of the Executive Committee since its creation in 2005.
He was Chairman and Chief Executive Officer of Lectra from 1991, following its takeover by Compagnie Financière du Scribe at the end of 1990. He holds no directorships outside the company and its subsidiaries.
Daniel Harari has been a director (since 1981) and Chief Executive Officer (since 1986) of Compagnie Financière du Scribe, a venture capital firm specializing in technology companies founded by his brother André Harari, of which they were the main shareholders until its merger with Lectra on April 30, 1998.
He began his career as Vice President of la Société d'Etudes et de Gestion Financière Meeschaert, an asset management company (Paris, France, 1980-1983). He was then Chairman and Chief Executive Officer of La Solution Informatique (1984-1990), a PC distribution and services company, and of Interleaf France (1986-1989), a subsidiary of the U.S. software publisher, both of which he founded in Paris.
Daniel Harari is a graduate of the École Polytechnique (Paris, France) and the Institut Supérieur des Affaires (Paris, coupled with the second year of the Stanford Business School MBA program, Palo Alto, CA, United States).

**Jérôme Viala**

Jérôme Viala, 50, Chief Financial Officer of Lectra since 1994, responsible for all financial, legal and manufacturing functions, member of the Executive Committee since its creation in 2005.
He joined the finance department of Lectra in 1985, then successively held the positions of Controller for Europe and North America (1988-1991), CFO for France (1992-1993) and CFO for the Product Division (1993-1994).
Jérôme Viala began his career as a credit analyst at Esso (France). He is a graduate of the École Supérieure de Commerce de Bordeaux (Bordeaux, France).

**Véronique Zoccoletto**

Véronique Zoccoletto, 52, Chief Human Capital Officer, Chief Information Officer since 2005, member of the Executive Committee since its creation in 2005.
She joined Lectra in 1993 as Chief Financial Officer for the Lectra France division, and subsequently was Group controller (1996-1998), Group Sales Administration manager (1998-2000), and Director of Organization and Information Systems (2000-2004).
She began her career with Singer (France) in 1983 as Controller, and then was head of the budget and internal audit department. From 1989 to 1991 she was Chief Financial Officer of SYS-COM Ingénierie (France). In 1991 she became CFO of Riva Hugin Sweda France.
Véronique Zoccoletto graduated from the University of Paris-Dauphine (France).

**Anne Binder**

Anne Binder, 61, Director of Lectra since October 27, 2011.
Anne Binder is currently a consultant in financial strategy and an independent Director for essentially non-publicly traded companies (luxury goods, electronics, telecommunications, ...). From 1993 to 1996 she was the Executive Manager in charge of the development in France for GE Capital (international financial services group) and Director of its French subsidiary. From 1990 to 1993, she was the Chief Executive Officer of the holding company and Deputy Chief Executive Officer of Euris investment fund (investments in industrial companies). From 1983 to 1990, she participated in the creation and was General Manager of the French Pallas group (bank and investment). Prior to that, she was an associate manager for Générale Occidentale (bank and industrial holding) from 1978 to 1982. At the beginning of her career, she was a consultant at Boston Consulting Group and then associate manager at Lazard Frères Bank in Paris.
Anne Binder is a Director of Fastpaperflow (an office furniture company) and member of the strategic committee of AM France, which manages Alternativa (new European exchange market for small and medium-sized growth companies). She is also Vice-Chairman of the French National Chamber of Financial Expert Consultants, a Director of the INSEAD foundation, and trustee for the INSEAD alumni fund.
Anne Binder graduated from the Institut d'Etudes Politiques of Paris. She also has a BA from the Paris faculty of law and a Master in Business Administration from INSEAD in Fontainebleau, France.

**Bernard Jourdan**

Bernard Jourdan, 67, Director of Lectra since December 21, 2011.
Bernard Jourdan is currently an independent strategy and management consultant. From 1995 to 2005, he was member of the Board of Directors and Executive Vice President of the SPIE Group, a European leader in electrical and mechanical engineering and heating, ventilation and air conditioning services, energy and communication systems.
From 1990 to 1995 he was Executive Vice President of Operations of the French subsidiary of the Schindler Group, a leading global provider of elevators, escalators and related services. From 1978 to 1990, he held various positions at Compagnie Générale des Eaux (currently Veolia Environment) group, a world leader in water treatment, environmental services, and energy services; he was, in particular, member of the Board of Directors and Chief Executive Officer of subsidiaries of the group in France from 1987 to 1990 and Executive Vice President and Chief Operating Officer of the U.S. division from 1981 to 1986. In his early career he was successively a consultant at Arthur Andersen Paris, associate manager at First National Bank of Chicago, and project manager at the Institut de Développement Industriel (IDI) in Paris.
Bernard Jourdan holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus of Ecole Centrale de Paris (Engineering), and obtained an BA in economics from the University of Paris Assas and an MS (DECS) in accounting from the University of Paris.

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Fax: +886 (0)3 326 1049

## TUNISIA

**Tunis**
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Fax: +216 71 965 660

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Fax: +1 770 422 1503

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Fax: +1 714 484 6625

**New York**
25 West 39th Street, 4th Floor
New York, NY 10018
Tel.: +1 212 730 4444
Fax: +1 212 730 4344

A complete list of agents and distributors is available at **www.lectra.com**

# BOARD OF DIRECTORS AND GROUP MANAGEMENT

## Board of Directors

André Harari, *Chairman*
Daniel Harari, *Chief Executive Officer*
Anne Binder
Bernard Jourdan

**Audit Committee**
Bernard Jourdan, *Chairman*
Anne Binder
André Harari

**Compensation Committee**
Bernard Jourdan, *Chairman*
Anne Binder
André Harari

**Strategic Committee**
André Harari, *Chairman*
Anne Binder
Bernard Jourdan

## Group Management

**Executive Committee**
Daniel Harari, *Chief Executive Officer, Chairman*
Jérôme Viala, *Chief Financial Officer*
Véronique Zoccoletto, *Chief Human Capital Officer, Chief Information Officer*

**Management Team**
Edouard Macquin, *Director, Sales*
Laurent Alt, *Director, Software R&D*
Anastasia Charbin, *Director, Marketing Fashion*
Bertrand Crœnert, *Director, Marketing Manufacturing*
Daniel Dufag, *General Counsel*
Jean-Maurice Férauge, *Director, Professional Services*
Javier Garcia, *Director, Strategic Accounts Manufacturing*
Laurence Jacquot, *Director, Manufacturing and Hardware R&D*
Bruno Mattia, *Director, Strategic Accounts Fashion*
Emmanuel Mussault, *Director, Marketing Intelligence and Communication*
Philippe Ribera, *Director, Marketing Software*
Didier Teiller, *Director, Services*

***Americas***
Roy Shurling, *Director, North America*
Adriana Vono Papavero, *Director, South America*

***Asia-Pacific***
Andreas Kim, *Director, China, Japan*
Yves Delhaye, *Director, ASEAN, Australia, South Korea, India*

***Europe***
Corinne Barbot-Morales, *Director, Spain*
Martina Benkova, *Director, Northern Europe*
Fabio Canali, *Director, Italy*
Bernard Karmin, *Director, France*
Mark Lyness, *Director, United Kingdom*
Alexander Neuss, *Director, Germany and Eastern Europe*
Rodrigo Siza, *Director, Portugal*

***Other countries***
Jean-Patrice Gros, *Director, Turkey, Middle East and North Africa*

## Statutory auditors

PricewaterhouseCoopers Audit SA
Represented by Bruno Tesnière
Crystal Park – 63, rue de Villiers
92208 Neuilly-sur-Seine Cedex

KPMG SA
Represented by Anne Jallet-Auguste and Éric Junières
Domaine de Pelus – 11, rue Archimède
33692 Mérignac Cedex

## Share Listing

Lectra shares are listed on NYSE Euronext (compartment C).
They have been admitted to the Deferred Settlement Service (SRD "Long only") on February 24, 2012.
Lectra shares figure among the French stocks making up the CAC Small, CAC Mid & Small, CAC All-Tradable, CAC All-Share, CAC Technology, and CAC Software & Computer Services indexes of NYSE Euronext.
ICB sector: 9537 – Software
ISIN code: FR 00000 65484
Liquidity Provider: SG Securities (Société Générale) – Paris

## Financial Information and Regulatory Disclosures

Lectra's financial statements are compliant with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The company publishes its financial results quarterly.

This English version of the 2011 Annual Report is a translation of the original French Annual Report prepared in the format currently adopted by French publicly-traded companies in accordance with French legal requirements.
The following documents exist only in French ("Shareholders information package"): the parent company's financial statements and notes for 2011; the Board of Directors' report submitted to the Ordinary Shareholders' Meeting of April 27, 2012; the Board of Directors' special report on stock options granted or exercised in 2011; the Board of Directors' report to the Extraordinary Shareholders' Meeting of April 27, 2012; the statutory auditors' report to the Ordinary Shareholders' Meeting on the parent company's financial statements; the statutory auditors' report to the Extraordinary Shareholders' Meeting of April 27, 2012 and the resolutions submitted to the Ordinary and Extraordinary Meeting of April 27, 2012.
Copies of these documents, as well as all financial information and regulatory disclosures, as defined in the General Regulation *(Règlement Général)* of the French *Autorité des Marchés Financiers* (AMF), are available on www.lectra.com, or by request from the Investors Relations department.

## 2012 financial calendar

**Publication of quarterly and annual financial results**

- First quarter 2012 ..... April 26, 2012
- Second quarter 2012 ..... July 26, 2012
- Third quarter 2012 ..... October 25, 2012
- Full year 2012 ..... February 12, 2013

**Annual Meeting of Shareholders** – Paris ..... April 27, 2012

**Analyst Conferences**

- Paris ..... October 26, 2012
- Paris ..... February 13, 2013

The financial calendar is updated on www.lectra.com

## Analyst coverage

Analysts from the following institutions have issued regular reports on the company's performance: Natixis Securities, SG Securities (Société Générale).

## Investors Relations

email: investor.relations@lectra.com

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