2012

FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dear Shareholders,

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-ninth fiscal year, ended December 31, 2012.
It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 30, 2013 (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 2012 and 2011 are based on 2011 exchange rates ("like-for-like") unless stated otherwise.

1. SUMMARY OF EVENTS AND PERFORMANCE IN 2012

While all the experts were forecasting a difficult and unpredictable year, the company entered 2012 with totally different financial and operating fundamentals compared with the eve of 2008-2009.

Persistently Weak Macroeconomic Conditions Year-Long

2011 ended with a return to a situation of economic, financial, and monetary crisis, of unknown scale and duration.
In its February 9, 2012 financial report, the company had indicated that it expected the macroeconomic environment to remain as weak as in Q4 2011 for the first half of 2012 at least. The company had formulated two revenue and income hypotheses for the fiscal year, which were identical for the first half of the year, then diverged for the second half depending on economic conditions. The first hypothesis assumed that economic conditions in the second half would return to their level of the first half of 2011. The second assumed that they would remain weak throughout the year.
Economic conditions showed signs of further worsening from the second quarter onward, due to persistent concerns over the sovereign debt of the United States and of certain European countries, as well as over the eurozone crisis and its global repercussions, and slower growth in certain emerging countries, China, Brazil and India in particular, and in developed countries. Elections in several countries, in particular in the United States, China and France, added to the uncertainty.

Financial Results Beat Company Expectations

Based on the assumption that business conditions would remain sluggish throughout the year, in its February 9, 2012 Report, the company considered that revenues from new systems sales could fall by around 24% compared with 2011. This would result in total revenues of approximately €190 million for the fiscal year. Income from operations would come to around €15 million, generating an operating margin of approximately 8%, and net income of approximately €10 million—nevertheless exceeding the company's pre-crisis performance.
These figures were based on an average exchange rate of $1.30/€1, very close to that for the year ($1.29/€1).
As in prior years, the main uncertainty concerned the level of revenues from new systems sales, which depend heavily on the state of the economy. Moreover, the very strong rebound in sales activity together with the outstanding income from operations, net income and free cash flow achieved in 2011 constituted a high basis of comparison for 2012.
Ultimately, revenues from new systems were down 17%, which is less than the expected fall of 24%.
Revenues totaled €198.4 million and income from operations was €19.8 million, down respectively 7% and 43% compared with 2011.

An Operating Margin of 10%, Despite Reduced Activity and the Cost of Investments for the future

At actual exchange rates, income from operations decreased by €9.5 million (–32%).This fall comprises a €9 million decline in revenues from new systems sales, a €2.4 million decline for the natural increase in fixed overhead costs, and a €6.6 million increase in fixed overhead costs related to the company's transformation plan. These three impacts were partly offset by the favorable effect of increased recurring revenues (€3 million), the improvement in gross profit margins (€2.5 million), and currency fluctuations (€3 million).

The operating margin was 10%, down 5.5 percentage points like-for-like and down 4.2 percentage points at actual exchange rates compared with the operating margin of 2011 (14.2%).
Investments for the future linked to the transformation plan have accounted for 3.3 percentage points in the reduction of the operating margin.
Net income was €13.6 million, representing a net margin of 6.9%, and a fall of 30% at actual exchange rates compared with 2011 (€19.5 million).
These figures were ahead of company expectations at the end of the first half of the year. This advance was still further increased in the third and fourth quarters, rising to €8.4 million for revenues, €4.8 million for income from operations, and €3.6 million for net income, at December 31. The operating margin was higher than expectations by 2 percentage points. This performance deserves special mention.
Free cash flow amounted to €11.5 million (€14.2 million in 2011). It would have come to €16.7 million if the French research tax credit for the year, reduced by the €0.6 million of the 2010 research tax credit used to offset income tax, had been received, exceeding net income by €3.1 million.
Comparison with 2007, the last pre-crisis year, which set the benchmark for subsequent years, illustrates the improvement in the company's operating ratios during the crisis years and shows the relevance of the strategic roadmap mapped out at the end of 2009, together with the strength of its business model and the soundness of its sales policy. At actual exchange rates, revenues fell by €18.1 million (–8%), due to the fall in revenues from new systems sales, while recurring revenues, after also having been impacted, exceeded their pre-crisis levels by 10%. Despite the fall in revenues, gross profit is back up at its 2007 level and 2007 income from operations before non-recurring items has been multiplied by 1.8. The operating margin is almost double its pre-crisis level (5.2% in 2007).

Orders from New Software Licenses and CAD/CAM Equipment Fall by Less than Expected

Even more than deteriorating macroeconomic conditions, the company emphasized at the beginning of the year that alternating good and bad news, the lack of visibility, and businesses' growing concerns so long as there are still no signs of a sustainable improvement in the economy, would continue to weigh heavily on their investment decisions. Purchasing decisions remained on hold throughout the year. Orders for new software licenses and CAD/CAM equipment (€76.2 million) were down 6% relative to 2011. Orders were down 6% for new software licenses and 7% for CAD/CAM equipment. This decline was smaller than the 17% fall expected by the company, and can be explained both by the fact that some companies have apparently adapted more rapidly to persistently weaker conditions, by the success of new versions of Lectra's flagship software and new generations of equipment, and by the company's sales policy concerning major customers.
The decline in orders stemmed primarily from the automotive market (–18%). In fashion and furniture, orders were up 3% and 11% respectively. These markets accounted for 37%, 48%, and 8% respectively of the total amount of orders. Orders in the other industries, which contribute 7% of the total, were down 16%.

Strong Growth in North America – Emerging Countries Remain Predominant

The situation remains uneven in geographic terms. Orders booked in North America increased by 25% —a remarkable performance—but were down by 2% in Europe, 8% in South America, and 29% in the Asia-Pacific region. These four regions accounted for 20%, 37% (including 6% for France), 7% and 29% respectively of total orders. Orders from the rest of the world (including Northern Africa, South Africa, Turkey, and the Middle East) increased by 37% and represent 7% of total Group orders. Emerging countries, with orders down by 5%, remained predominant with 54% of total orders, whereas in developed countries, which account for 46% of total orders, orders fell by 8%.

Fall in Revenues from New Systems Sales Was Partly Offset by Growth in Recurring Revenues, Illustrating the Strength of the Company's Business Model

Revenues totaled €198.4 million, down 7% like-for-like, and down 4% at actual exchange rates, compared with 2011. They grew by 20% in 2010 then by 10% in 2011, following sharp falls in 2008 and 2009. Revenues increased by 16% in North America, but fell 5% in Europe, 17% in South America, and 26% in the Asia-Pacific region.

These four regions accounted for 21%, 47% (including 10% for France), 5% and 21% respectively of total revenues. Revenues from the rest of the world increased by 18%, and represent 6% of total Group revenues.
Revenues from new systems sales (€83.7 million) decreased by 17%, while recurring revenues (€114.7 million) increased by €3.4 million (+3%).
After falling 3% in 2010 and 1% in 2011, revenues from recurring contracts (€67.5 million) have now resumed their growth path, with a 5% increase in 2012. This is the outcome of the company's sales policy centered on its value proposition for customers, maximizing their return on investment from their installed base of Lectra solutions, and minimizing total cost of ownership.
Meanwhile, after rising very sharply in 2011, revenues from spare parts and consumables increased by only 1%, to €45.6 million, reflecting an aggregate fall in companies' production volumes, given the expanding installed base. These represent 23% of total Group revenues.
As a result, recurring revenues once again demonstrated their key role as an essential stabilizing factor and cushion for the company in a flagging economy, while revenues from new systems sales regained their position as Lectra's growth driver in 2010 and 2011.

Growth in Order Backlog

The order backlog at December 31, 2012 increased by €1.6 million relative to January 1, to €12.1 million. The order backlog comprised €10.3 million for shipment in Q1 2013 and €1.8 million over the rest of the year.

Acceleration in the Company's Transformation Plan: Prioritizing Long-Term Strategy

The decision to keep Lectra's R&D and production in France, made in 2005 after deep consideration, has enabled the company to meet the three challenges it faced, thanks to innovation. Those challenges were: to compete with the low-cost products of its international competitors that had relocated to China and those of its Asian competitors; to increase its competitiveness even in the event of a persistently weak dollar/euro exchange rate; and to boost its margins. The decision has also enabled Lectra to protect its industrial property.
Rising wages and social charges in China, along with inflation and the appreciating yuan compared with the dollar as well as the euro, have negatively impacted production costs since the time of the decision. However, strong growth in Lectra's gross profit margins on each product line, CAD/CAM equipment especially, despite tougher competition due to the crisis, has pushed the aggregate gross profit margin to a historical high, confirming once again, in 2012, the competitiveness and high value added of its offer.
Formulated at the end of 2009 to enable the company to emerge strengthened from the crisis and prepare for the new post-crisis challenges, the strategic roadmap for 2010-2012 amply demonstrated its relevance in 2010 and again in 2011, when the company posted record financial performance, as well as in 2012, when financial results held up well. The roadmap further proved the company's resilience.
Despite the prevailing economic conditions, the company decided at the end of 2011 to accelerate its transformation over the period to 2015, prioritizing long-term strategy over short-term profitability (see chapter 14 below).
In 2012, the plan accounted for nearly 75% of the total increase in fixed overhead costs.
Lectra also spends heavily on training for its personnel, and this has been further increased in response to new recruitments. The budget has risen significantly since 2010, representing an investment of €3.2 million in 2012, or 4% of the company's total payroll.

A Very Strong Balance Sheet

Whereas the company's net financial debt was €47.8 million at December 31, 2009, the net cash position was positive at €14.2 million at December 31, 2012, an increase of €5.6 million compared with December 31, 2011. This was achieved thanks to free cash flow of €11.5 million in 2012, bringing cumulative free cash flow before non-recurring items generated in the three-year period 2010-2012 to €56.7 million, and to €70.1 million after non-recurring items. This therefore represents an improvement of €62 million in the net cash position, after payment of dividends of €5.2 million in 2011 and of €6.3 million in 2012. No dividend had been paid from 2007 to 2009.

At the same time, shareholders' equity has more than doubled to €65.3 million, compared with the December 31, 2009 figure of €24.7 million.
Finally, restated for the (French) research tax credit not received and not offset against a tax charge, the working capital requirement was negative at €13.4 million—a key feature of the company's business model.

Major Technological Advances

Investment in R&D represents a cumulative €86.2 million over the past five years, fully expensed.
New versions of two software for the fashion industry were launched in 2012: in May, *Kaledo V3*, Lectra's textile design suite for designers, for creating prints, knits, and wovens. In June, *Lectra Fashion PLM V3*, Lectra's collection lifecycle management solution, which provides the visibility needed to make strategic business decisions and the in-depth value chain control to execute them quickly, securely and effectively. September 2011 saw the launch of the *Modaris V7* release of its flagship software, a major breakthrough for the fashion industry, putting 3D technology at the heart of apparel creation and development.
In addition, the company has renewed practically its entire CAD/CAM equipment offer. In April 2012, the company launched its *Versalis* range of automated leather cutters for the furniture industry, after the range aimed at the automotive industry and the leather goods industry in 2011.
On July 2, 2012, it launched its new generation of *Vector* automated cutters for fabric as well as composite materials, which represents a major advance and proved an immediate success. The company has dedicated exceptional resources to its development, giving birth to a complete, integrated and unique offer enabling customers to benefit from better control and optimization of their production, which in turn increases their competitiveness and profitability. Recognized as the best performing solution on the market, the previous generation of *Vector*, launched in February 2007, remained without equal since then. With more than 1,600 cutters sold, it has enabled Lectra to increase its market share in all of its sectors of activity and to strengthen its leadership in the fashion and automotive industries.

2. ACQUISITIONS AND PARTNERSHIPS

The company made no acquisitions in 2012 and did not enter into any new strategic partnership agreements.

3. CONSOLIDATED FINANCIAL STATEMENTS FOR 2012

With an average exchange rate of $1.29/€1, the U.S. dollar was up 8% compared with 2011 ($1.39/€1). This change, and that of other currencies, mechanically increased revenues by €6.2 million (3%) and income from operations by €3 million (18%) at actual exchange rates, compared with like-for-like figures.

Revenues

Revenues for 2012 totaled €198.4 million, down 7% like-for-like, and down 4% at actual exchange rates compared with 2011.

Revenues from New Systems Sales

Revenues from new software licenses (€23.4 million) were down 10% and contributed 12% of total revenues, as in 2011.
CAD/CAM equipment revenues were down 21% to €52.2 million and accounted for 26% of total revenues (compared with 31% in 2011).
Revenues from training and consulting were down 14% to €7.8 million.
Overall, revenues from new systems sales were down 17% to €83.7 million and represented 42% of total revenues (compared with 47% in 2011).

Revenues from Recurring Contracts and Spare Parts and Consumables

Recurring revenues (€114.7 million) increased by €3.4 million (+3%). They accounted for 58% of total revenues (compared with 53% in 2011).
Revenues from recurring contracts—which represented 59% of recurring revenues and 34% of total revenues—totaled €67.5 million, a 5% increase.
Revenues from recurring contracts break down as follows:
– revenues from software evolution contracts (€31.9 million), up 5% compared with 2011 and representing 16% of total revenues;

– revenues from CAD/CAM equipment maintenance contracts and from subscription contracts to the Group's five International Call Centers (€35.5 million), which increased by 5% and represented 18% of total revenues. Meanwhile, revenues from spare parts and consumables increased 1% to €45.6 million and represent 23% of total revenues.

Gross Profit Margin

The overall gross profit margin was 73.1%. Like-for-like, it increased by 2.4 percentage points relative to 2011 (70.1%).
This increase stems from a combination of changes in the product mix—with a rise in the share of higher-margin recurring contracts in total revenues—and increased gross profit margins on all product lines, for CAD/CAM equipment especially, despite heavy pressure from competitors, further heightened by the crisis.
This excellent performance is further evidence of the competitiveness and high added value of Lectra's 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 €125.1 million, up €7.5 million (+7%) compared with 2011. They break down as follows:
– €112.5 million in fixed overhead costs, up €9 million (+9%);
– €12.6 million in variable costs, down €1.4 million (–11%).
The increase in fixed overhead costs reflects in particular the impact of investments for the future made under the company's transformation plan, entirely expensed in the period. The decline in variable fixed overheads is mainly accounted for by weak sales.
R&D costs are 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 €17.4 million and represented 8.7% of revenues (compared with €18.2 million and 8.9% in 2011). Net R&D costs after deduction of the French research tax credit and grants amounted to €11.5 million (€11.5 million in 2011).

Change in Method of Accounting for Employee Pension Plans

The Group has decided to modify the method used to account for actuarial gains and losses on defined benefit pension plans, under the current IAS 19—Employee Benefits, with regard to application of the revised IAS 19 standard in 2013, under which the option to recognize actuarial gains and losses in equity will become compulsory. Until December 31, 2011, actuarial gains and losses were recognized in full in the consolidated income statement. With effect from January 1, 2012, the Group has decided to recognize all actuarial gains and losses in the consolidated statement of comprehensive income. The Q4 2011 and full-year 2011 accounts were consequently revised. The impact of this decision is described in note 2 to the financial statements in this report.

Income from Operations and Net Income

Income from operations was €19.8 million. Like-for-like, it decreased by €12.5 million (–43%) relative to 2011 (€29.3 million). At actual exchange rates, it decreased by €9.5 million (–32%).
The operating margin was 10%, down 5.5 percentage points like-for-like and down 4.2 percentage points at actual exchange rates compared with 2011 (14.2%).
Financial income and expenses represent a net charge of €1 million, down relative to 2011 (€1.5 million), mainly due to the steep decline in the balance outstanding on the medium-term bank loan between the two periods.
The balance of foreign exchange gains and losses was a negative €0.3 million.
After an income tax charge of €4.9 million, net income was €13.6 million (€19.5 million in 2011), representing a fall of 30% at actual exchange rates.
Net earnings per share on basic capital and on diluted capital were €0.47 (€0.68 and €0.66 per share respectively in 2011).

Free Cash Flow

Free cash flow amounted to €11.5 million (€14.2 million in 2011). This figure results from cash flow provided by operating activities of €16.3 million (including an increase in working capital requirement of €4.9 million), and cash flow used in investing activities of €4.8 million (see note 39 to the consolidated financial statements).

There were no non-recurring items in the period, as compared with a €1 million non-recurring disbursement in 2011.
The (French) research tax credit for the year (€5.8 million) was accounted for but not received.

Shareholders' Equity

At December 31, 2012, consolidated shareholders' equity amounted to €65.3 million (€58.7 million at December 31, 2011) after payment of the €6.3 million dividend declared in respect of fiscal 2011, as decided by the Ordinary Shareholders' Meeting of April 27, 2012.
This figure is calculated after deduction of treasury shares held solely within the Liquidity Agreement. Treasury shares are carried at cost, ie €0.4 million (versus €0.7 million at December 31, 2011).
Cash and cash equivalents totaled €21 million (€26.3 million at December 31, 2011).
Financial borrowings totaled €6.7 million (€17.7 million at December 31, 2011), of which:
– €5.4 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 light of early repayment of €10 million at the company's initiative on December 31, 2012, the balance outstanding of the loan will be repaid in a single installment on December 31, 2013. Owing to the expiration of the interest-rate swaps on December 31, 2012, the effective interest rate will fall to 1.14% in 2013 (compared with 3.91% in 2012), assuming the 3-month Euribor remains identical to the rate at December 31, 2012 (see note 18.3 to the consolidated financial statements).
– €1.3 million corresponds to interest-free government advances to help finance R&D programs.
Consequently, the net cash position was positive at €14.2 million at December 31, 2012 (€8.6 million at December 31, 2011).
The working capital requirement at December 31, 2012, amounted to €2.3 million. It comprised a receivable of €15.7 million on the French tax administration (*Trésor Public*) corresponding to the research tax credit of 2010, 2011 and 2012, 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 €13.4 million.
It should be noted that, when the research tax credit recognized in the year cannot be charged against income tax, it is treated as a receivable on the French tax administration. If unused in the ensuing three years, it is repaid in the course of the fourth year (see note 14 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, of its structure and its organization, of its strategy and its business model. It further describes how the company manages and prevents these risks, depending on their nature.
The chapter has been organized to better identify risk factors specific to the Group. They have been arranged by order of priority, according to whether they are of high, secondary, or low importance.
Likewise, the management and prevention of these risks have been clarified.

Identification of Risks

For internal controls to be pertinent, the Group needs to be able to identify and assess the risks to which it is subject, namely the possible occurrence of an event whose consequences could affect the company's people, assets, environment, goals, financial condition, financial results (or its ability to achieve its goals) or reputation.
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 the company's people, assets, environment, goals, together with its activity, financial condition, or financial results (or its ability to achieve its goals), or reputation, 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 and tax credit for encouraging competitiveness and jobs applicable in France—enabling the Group to finance its future growth out of its own cash, with a practically zero working capital requirement.
Finally, uncompromising ethics in conducting business and respect for each individual are part of the company's core values.

4.1. Macroeconomic Environment Risks

The solutions marketed by the Group represent a sometimes sizable investment for its customers. Decisions depend in part 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.
2011 ended with a return to a situation of economic, financial, and monetary crisis, of unknown scale and duration. In 2012, economic conditions showed signs of further worsening, which could persist into 2013 and subsequent years (see chapters 1 and 14).
Customers' businesses, 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 businesses' 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 37% of revenues from new systems sales in 2012, for a combined total of 86%) 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 vehicle for dynamic growth. 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 2012, more than 75% of total revenues was generated in 10 countries or country groups (Brazil, China, France, Germany and Eastern Europe, Italy, Japan, Mexico,

Spain, the United Kingdom, and the United States), none of which accounts for more than 15%, individually. Revenues generated by the Group in Italy accounted for 11%. The figures for Spain and Portugal, which have both suffered severely from the downturn in their economies, account for 3% each. The figure for Greece is immaterial.

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 associated services—specifically designed for industries that use large volumes of fabrics, leather, technical textiles, and composite materials.
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 power, 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 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 its engineers and of the project development process, 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. The decision has also served to protect its intellectual property. 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 economic value of the land and buildings comprising the Bordeaux-Cestas site currently exceeds its historical cost of €10.7 million, but that the site figures in the statement of financial position for a net value of €3.9 million only.

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 the final assembly and testing of the equipment it produces and markets 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 from 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 2012, 48% of the Group's consolidated revenues, 91% of its cost of sales, and 72% of its overhead expenses were denominated in euros. These percentages were respectively 30%, 5%, and 11% for the U.S. dollar. The Chinese Yuan represented nearly 5% 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:

a) 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;
b) currency translation impact:
   – on 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 Group's foreign exchange risk to which the Group is exposed could increase in 2013. As stated in chapter 14, faced with slower growth, many major countries—particularly the United States, China, and Japan—have already eased or could ease their monetary policy. Besides the possible resulting risk to the global

economy, such policies could result in a lasting rise in the euro which would negatively impact the Group's business activity and financial results. Sensitivity to U.S. dollar fluctuations and other currencies is shown in note 33 to the consolidated financial statements.
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 the Group has sharply reduced its financial debt in recent years, from €66.5 million at December 31, 2008, to €6.7 million at December 31, 2012:
– €5.4 million carried interest at the 3-month Euribor rate plus a margin of 0.95% per year. In the theoretical event that the 3-month Euribor rate remains identical to that at December 31, 2012 (0.19%), the total effective implied interest rate would be 1.14% until final repayment on December 31, 2013 of the medium-term bank loan. A 1 percentage point rise in the 3-month Euribor rate over the year would have an impact of less than €0.1 million.
– the remainder of the debt carries no interest.

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 15.2 to the consolidated financial statements), and is therefore not subject to stock market risk.

4.4. Customer Dependency Risks

Each year, revenues from new systems, accounting for 42% of total revenues in 2012, are generated by around 2,000 customers, and comprise both sales to new customers and extensions to or the renewal of existing customers' installed bases. Revenues from recurring contracts, accounting for around 34% of total revenues, are generated on almost 5,000 of Lectra's customers. Finally, sales of spare parts and consumables, which account for 23% 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 2012, as was the case in previous years, and the company's 10 largest customers represented less than 20% of revenues combined, 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 2012 represented €5.8 million, or 33% of the total corresponding expense, 29% of income from operations, and 42% of net income. Any significant reduction or abrogation of this tax credit would have an impact on Group income. The changes introduced by the December 29, 2012 Budget Act (law no. 2012-1509) for 2013 *(Loi de finances pour 2013)* and the Supplementary Budget Act of December 29, 2012 (law no. 2012-1510) for 2012 (*Loi de finances rectificative pour 2012*) have had no impact on the benefits of the research tax credit for our company. Moreover, stabilization of the research tax credit mechanism for the remainder of the current French President's five-year term of office is one of 35 concrete measures to which the Government is committed within the framework of the National Pact for Growth, Competitiveness and Employment *(Pacte national pour la croissance, la compétitivité et l'emploi).*

In the normal course of its business, the Group may be involved in various disputes and lawsuits. The Group considers that there are no 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 23.2 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 unite its teams in addressing the Group's strategic challenges.
Any departure within the management team or of certain experts could 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 policies: to attract and retain suitably qualified personnel to ensure the competitiveness, growth and profitability of the company, by implementing a structured recruitment process with very strong interaction between the Group's management team, the different corporate departments, and the subsidiaries; to motivate the Group's teams by applying principles of fairness in compensation based on the recognition of merit and performance; to sustain the development and transfer of skills and experience to the levels required for its different activities, carrying out an ambitious and continuous training policy; emphasizing a high degree of flexibility and adaptability the Group's organization to changes in its geographic markets and market sectors, by continuously reshaping its organization.
After three years of weak and uncertain macroeconomic conditions, the Group decided to focus on its long-term strategy, rather than on short term profitability. In September 2011, it stepped up its transformation plan, the main pillar of which is an ambitious recruitment program lasting until the end of 2015, and will aim primarily at bolstering its sales and marketing teams, while remaining within tight budget constraints (see chapter 1).
The transformation plan provides for continuous performance assessment and improvement, training, and coaching programs entailing a major investment by management and human resources teams. Measures taken in this regard focus on four main themes, namely: an intensified effort to develop the knowledge and skills of the sales and customer support teams with regard to solutions, customers' businesses and evolutions in the Group's markets; sustained internal communications aimed at sharing the company's strategy and challenges, in association with the development of company projects capable of unifying the entire workforce; optimizing internal processes; and the deployment of upgradable sales-focused information systems, in which the Group invests regularly, and state-of-the-art IT infrastructures allowing all of the company's teams the world over to exchange information directly regardless of 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 allowing the Group to create a positive social climate, enabling the company to underpin its development and deal constructively with economic uncertainty.
Significant efforts have been made to identify and evaluate risks, thanks to targeted action plans to ensure that all company activities are carried out safely, in particular in R&D and manufacturing activities as well as during maintenance interventions.

This general process is overseen by a safety engineer, with the active involvement of management, via accident prevention campaigns, personnel training (nearly 500 people underwent safety-related training in 2011 and 2012), 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 record, with accident frequency and severity rates respectively 6 and 2 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.
However, the Group has succeeded in keeping the scale of losses in connection with this risk at a historically low level, 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.
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, which include preventively analyzing its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears.
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, 2012, represents less than 10 days.
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.

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 fundamentally 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 €14.2 million on shareholders' equity of €65.3 million at December 31, 2012. Financial debt has fallen from €66.5 million to €6.7 million and available cash has increased from €10.2 million to €21 million.
As a consequence of the early repayments made by the Group at its initiative, the amount remaining to be repaid on December 31, 2013, of the medium-term bank loan had been reduced to €5.4 million.
The Group is no longer subject to covenants liable to trigger early repayment of the loan, this clause in the loan contract having lapsed on January 1, 2013. On the other hand, the other clauses remain in force until final repayment, but their possible impact is immaterial (see note 18.3 to the consolidated financial statements).
Cash and cash equivalents is held exclusively in interest-bearing sight accounts and represents a comfortable and sufficient liquidity reserve for the Group.
Thanks to its structurally negative or 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 related to the acquisition of 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.
Some guarantees can remain in force for up to thirty years, therefore, these commitments will no longer be mentioned in future reports, except in the event of new liabilities.

Off-Balance Sheet Commitments Relating to the Group Financing

The parent company, Lectra SA, provided a total of €2.1 million at December 31, 2012 (€2.3 million at December 31, 2011), 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.
Exchange risk hedging instruments of balance sheet positions at December 31, 2012, 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 €2.5 million (€4.2 million at December 31, 2011).
Moreover, interest rate swap contracts put in place by the company in 2007 to hedge its interest rate risk exposure to part of the medium-term bank loan, by converting the floating rate on the loan to a fixed rate, expired on December 31, 2012. The corresponding off-balance sheet commitment has therefore lapsed.

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, and following the Board of Directors' recommendation, the company resumed its policy of dividend payments in 2011 and declared a dividend of €0.18 per share in respect of fiscal 2010. The dividend was increased to €0.22 per share in respect of fiscal 2011.
Confirming its confidence in the company's future prospects, despite the persistently difficult economic conditions, the Board of Directors has proposed to declare an unchanged dividend of €0.22 per share in respect of fiscal 2012, at the upcoming Shareholders' Meeting of April 30, 2013. The gross dividend represents a payout ratio of 47% and a yield of 4.65% based on the December 31, 2012, closing share price.
Subject to approval by the shareholders, the dividend will be made payable on May 10, 2013.
For the record, it is recalled that, under the terms of the contract of the €48 million medium-term bank loan contracted in 2007 to finance the public stock buyback tender offer, the company is under obligation to propose to the Ordinary Shareholder's Meeting called each year to approve the previous fiscal year's financial statements that the dividends 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 between the declared amount and 50% may be distributed in subsequent years). This clause will expire on December 31, 2013, after repayment of the final installment on the loan.

7. SHARE CAPITAL–OWNERSHIP–SHARE PRICE PERFORMANCE

Change in Share Capital

In accordance with the first resolution of the Extraordinary Shareholders' Meeting of April 27, 2012, the par value of the shares making up the company's share capital has been raised from €0.97 to €1.00. Consequently, the share capital at December 31, 2012 totaled €28,948,315, divided into 28,948,315 shares with a par value of €1.00. Share capital was €28,036,501.70, divided into 28,903,610 shares with a par value of €0.97, at December 31, 2011.

Share capital has increased by 44,705 shares since January 1, 2012, resulting from the exercise of stock options (an increase of €0.2 million of share capital together with total share premium).

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, then 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.

On December 5, 2012, Financière de l'Échiquier (France), on behalf of investment funds managed by it, reported that it had decreased its shareholding below the threshold of 10% of voting rights on December 3, and below the threshold of 10% of the company's capital stock on December 4, and that at that date it held 9.90% of the capital stock and 9.75% of the voting rights.

Since the close of fiscal 2012, Delta Lloyd, on behalf of investment funds managed by it, reported that it had increased its shareholding on January 7, 2013 above the threshold of 15% of the company's capital stock, and that at that date it held 15.08% of the capital stock and 14.84% of the voting rights.

No other crossing of statutory thresholds has been notified to the company since January 1, 2012.

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 38.3% of the capital and 38% of th e voting rights;

– Delta Lloyd Asset Management N.V. (Netherlands), which holds more than 15% (but less than 20%) of the capital and more than 10% (but less than 15%) of the voting rights, on behalf of investment funds managed by it;

– Financière de l'Echiquier and Schroder Investment Management Ltd (UK), each of which holds more than 5% (but less than 10%) of the capital and voting rights, on behalf of investment funds managed by them.

Treasury Shares

At December 31, 2012, the company held 0.3% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement managed by Exane BNP Paribas. 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 27, 2012, 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 €1.00, in accordance with the conditions described in the report of the Board of Directors to said meeting and in its second resolution, and automatically terminated the authority given to it by the Extraordinary Shareholders' Meeting of April 30, 2010. 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 2012 Stock Option Plan

On September 4, 2012, the Board of Directors granted 197,319 options, at an exercise price of €6.25 per share to 82 beneficiaries in respect of fulfillment of their annual performance targets set for 2011. These grants result from the Board's undertaking at the time of the granting of the 2011 stock option plan.

Under the 2012 plan, the Board of Directors granted 778,800 options to 110 beneficiaries at an exercise price of €6.25 per share. Of this total, 722,800 options granted to 92 beneficiaries, conditional on fulfillment of their annual performance targets for 2012, corresponded to a maximum number of options. The final number of options at December 31, 2012 in respect of the 2012 plan was determined on the basis of the actual percentage fulfillment of these targets, after closing

of the consolidated financial statements for 2012, and was reduced to 351,728 options and the number of beneficiaries reduced to 106 (420,672 having lapsed on grounds of non-fulfillment of 2012 targets, and 6,400 options because the beneficiaries concerned had left the Group).
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.
These options vest over a period of four years from January 1, 2012 and are conditional upon 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, 2012

44,705 options were exercised in 2012. 773,508 options (including 427,072 options granted in 2012) have ceased to be valid, 74,133 of which following the departure of their beneficiaries, 278,703 due to the expiration of several plans, and 420,672 options on grounds of non-fulfillment of 2012 targets.
At December 31, 2012, 166 employees were beneficiaries of 3,007,283 options outstanding and 14 former employees still held 31,942 options. Altogether, there are 180 beneficiaries of options (respective figures at December 31, 2011 are: 157, 20, and 177).
At December 31, 2012, 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 31,987,540, consisting of:
- capital stock: 28,948,315 shares;
- stock options: 3,039,225 options.

Each stock option gives the beneficiary the right to acquire one new share with a par value of €1.00, 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, 2012, the company's capital (at par value) would increase by a total of €3,039,225, associated with a total additional paid-in capital of €11,639,751. 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, 2012.
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

The company's share price at December 31, 2012, was €4.73, up 2.8% compared with December 31, 2011 (€4.60). The share price recorded in 2012 a low of €4.04 on June 15 and a high of €5.42 on February 10. The CAC 40 index and the CAC Mid & Small index rose 13.9% and 20.5% respectively over the same period. According to Euronext statistics, the number of shares traded in 2012 (4.2 million) was down 33%, and trading volumes (€19.7 million) were down 45% compared with 2011.
Lectra's shares were admitted to the Deferred Settlement Service (SRD "Long only") on February 24, 2012.

8. CORPORATE GOVERNANCE–CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSILIBITY

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, in 2001 André Harari and Daniel Harari cancelled the double voting rights that were attached to the shares they held. As a result of the foregoing, only 411,430 shares (representing 1.4% of the capital stock) carried double voting rights at December 31, 2012.

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—in the particularly hostile macroeconomic climate since the onset of the global economic and financial crisis of 2008-2009—to the implementation of the company's accelerated transformation in order to address the new challenges facing it, alongside the execution of the company's goals and short-term action plan, while at the same time pursuing its medium-term strategic plan. This format has amply demonstrated its relevance since the onset of the crisis, with the sharp rebound in earnings in 2010 and again in 2011, and with healthy earnings in 2012.

The Shareholders' Meeting of April 27, 2012, renewed the directorships of André Harari and Daniel Harari for a further period of four years (in compliance with the reduction in the length of Directors' terms from six years to four, as resolved by the same Meeting), until the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2015. The meeting of the Board held on the same day re-elected André Harari to the position of Chairman of the Board of Directors and Daniel Harari to the position of Chief Executive Officer. The Board has not named an Executive Vice President.

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.

Composition of the Board of Directors

Following the deaths of Louis Faurre and of Hervé Debache in 2011, the Shareholders' Meeting of April 27, 2012 approved the co-optation of Anne Binder and Bernard Jourdan as independent directors for a four year period ending at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2015.
Following the renewal of the Board of Directors, the Directors have devoted several meetings of the Strategic and Compensation Committees to enabling the two new Directors to acquire a thorough understanding of the company, its organization, and mode of operation, and its products and services mix, together with a review of the 2013-2015 strategic plan.

Criteria Defining Board Members' Independence

The criteria of independence are set forth 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 and updated in April 2010 (referred to as "AFEP-MEDEF Code"), which the company has adopted. 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. Until December 31, 2012, these committees were made up of three directors, two of them independent within the meaning of the rules laid down in the AFEP-MEDEF Code. The Audit Committee and the Compensation Committee were chaired by Bernard Jourdan, and the Strategic Committee by André Harari. 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.
In anticipation of the new legal provisions scheduled to take effect on August 31, 2013, André Harari, Chairman of the Board of Directors, relinquished his position on the Audit Committee on December 31, 2012.
For the sake of consistency, and as recommended by the AFEP-MEDEF Code, he also relinquished his position on the Compensation Committee as of the same date.
With effect from January 1, 2013, the Audit Committee and the Compensation Committee now have two independent directors: Bernard Jourdan, Committee Chairman and Anne Binder. The Strategic Committee continues to have three members: André Harari, Committee Chairman, Bernard Jourdan and Anne Binder.

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 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 supplementary pension plan (retraite chapeau) or 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 under any employment contract to the company and 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, 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 2012. The fixed portion of compensation has been unchanged since 2003. 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. Variable compensation is set in accordance with the following four quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets.

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.

For 2012, in its 2011 report the Board 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, the Board has decided to maintain this compensation unchanged for a further year having regard to the depressed macroeconomic environment and current uncertainties. The same 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.

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 ten 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 2012, 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 96% of the amount tied to the fulfillment of annual targets (107% in 2011).
Consequently the total actual compensation due in respect of 2012 was 98% of the target-based compensation (104% in 2011).
The Board has decided to increase the total compensation of the Chairman of the Board of Directors and the Chief Executive Officer progressively over three years to €600,000 conditional upon fulfillment of annual targets, i.e. to: €520,000 in 2013, €560,000 in 2014, and €600,000 in 2015. Conditional upon fulfillment of annual targets, variable compensation remains equal to 60% of total compensation. The performance criteria set for 2012 have been left in place for 2013, 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:

	2012			2011		
(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	273,800	96 %	285,000	303,626	107 %
Total	475,000	463,800	98 %	475,000	493,626	104 %
Daniel Harari, Chief Executive Officer						
Fixed compensation	190,000	190,000	100 %	190,000	190,000	100 %
Variable compensation	285,000	273,800	96 %	285,000	303,626	107 %
Total	475,000	463,800	98 %	475,000	493,626	104 %

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)	2012 Amounts earned in respect of the fiscal year [1]	2012 Amounts paid in the year [1]	2011 Amounts earned in respect of the fiscal year [1]	2011 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	273,800	303,626	303,626	570,000
Directors' fees [2]	25,000	25,000	25,000	25,000
Benefits in kind [3]	9,934	9,934	10,677	10,677
Total	498,734	528,560	529,303	795,677
Daniel Harari, Chief Executive Officer				
Fixed compensation	190,000	190,000	190,000	190,000
Variable compensation	273,800	303,626	303,626	570,000
Directors' fees [2]	25,000	25,000	25,000	25,000
Benefits in kind [3]	20,443	20,443	19,564	19,564
Total	509,243	539,069	538,190	804,564

(1) Differences between amounts earned in respect of 2012 and 2011 and the amounts paid in 2012 and 2011 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 2012 shown here are subject to approval by the Shareholders' Meeting of April 30, 2013.
(3) The amounts shown for benefits in kind reflect the value for tax purposes of the use of company cars (€9,934 for André Harari and €14,255 for Daniel Harari in 2012) and payments to life insurance policies for Daniel Harari (€6,188 in 2012 and €6,182 in 2011); 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. The Executive Directors 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 27, 2012, in respect of 2011 was apportioned as indicated in the table below, having regard to the death of Louis Faurre and his replacement by Anne Binder (Bernard Jourdan having been appointed only on December 21). This amount had been unchanged since fiscal 2006.

Directors' fees in respect of fiscal 2012 are presented subject to approval by the Shareholders' Meeting. They will be divided equally among the directors (€25,000, or one quarter of the total, for each director) as in previous years:

(in euros)	2012 [1]	2011
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
Louis Faurre, Director	-	20,833
Anne Binder, Director	25,000	4,167
Bernard Jourdan, Director	25,000	-
Total	100,000	100,000

(1) Directors' fees shown in respect of 2012 are subject to approval by the Shareholders' meeting of April 30, 2013. The amounts indicated for André Harari and Daniel Harari are shown in the table above giving details of their total compensation

The Board of Directors will propose to the Shareholders' Meeting called to approve the financial statements for the fiscal year closed on December 31, 2013 to increase the total amount of Directors' fees to €160,000 in respect of fiscal 2013, in recognition, among others, of the increased number of Committee meetings and Directors' duties. Directors' fees will continue to be apportioned equally among the Directors (ie €40,000, or one quarter of the total, per Director).

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 company 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 compliance 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 Paperflow (an office furniture company) and member of the strategic committee of AM France, which manages Alternativa (a new European stock exchange for small and medium-sized growth companies). She is also Vice-Chairman of the French National Chamber of Financial Expert Consultants. These positions are held in France.

Bernard Jourdan holds no outside directorship.

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 Lectra's shares, 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 2012 by the directors or by Jérôme Viala and Véronique Zoccoletto, who are members of the Executive Committee, and the only other persons having the power to make management decisions regarding the company's development and strategy and with regular access to inside information concerning the company.

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

The company complies with 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 2012, a total of €727,000 in fees paid for the audit of the financial statements of all Group companies, including €446,000 to PricewaterhouseCoopers, €241,000 to KPMG, and €40,000 to other auditors, excluding other services provided. The corresponding charge recognized in 2011 was €777,000.

Total fees paid to the Group statutory auditors amounted to €791,000, including €527,000 to PricewaterhouseCoopers and €264,000 to KPMG:

	PWC				KPMG			
	Amount		%		Amount		%	
(In thousands of euros)	2012	2011	2012	2011	2012	2011	2012	2011
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
Issuer (Lectra SA)	149	157	28 %	30 %	131	137	50 %	55 %
Fully-consolidated subsidiaries	297	270	56 %	51 %	110	107	42 %	43 %
Others services directly related to the Auditors' engagement								
Issuer (Lectra SA)	-	-	0 %	0 %	-	-	0 %	0 %
Fully-consolidated subsidiaries	-	-	0 %	0 %	-	-	0 %	0 %
Sub-total	446	427	85 %	81 %	241	244	91 %	98 %
Other services to consolidated entities								
Legal, tax and social reviews	80	99	15 %	19 %	23	4	9 %	2 %
Sub-total	80	99	15 %	19 %	23	4	9 %	2 %
Total	527	526	100 %	100 %	264	248	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:

a) the structure of the company's capital stock;

b) 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;

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

d) the list of holders of all securities carrying special control rights and the description thereof;

e) control mechanisms provided for in the event of an employee share ownership system, when the employees do not exercise controlling rights;

f) 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;

g) the rules governing the appointment and replacement of members of the Board of Directors and amendments to the company by-laws;

h) the powers of the Board of Directors and in particular concerning the issuance or buyback of shares;

i) agreements entered into by the company that will be modified or terminated in the event of change of company control;

j) 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, 2012, was €5.4 million and becomes due on December 31, 2013. 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.

Corporate Social and Environmental Responsibility

Disclosures required under the July 12, 2010 "Grenelle II" Act (Law no. 2010-788) are presented in chapter 6 of the Management Discussion laid before the Shareholders' Meeting on April 30, 2013.

Diversity, Ethical Values and Core 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.

As for diversity, it has been one 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.

Lectra's strong corporate culture is built on five core values shared by all Lectra team members worldwide: entrepreneurship, leadership, innovation, excellence and customer care. 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.

Whenever possible, Lectra facilitates internal mobility, with appropriate support, in order to enrich its employees' know-how and preserve their employability.

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 equipment 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.

In 2005, the Group made the strategic decision to maintain its research and manufacturing operations in France, in order to protect its intellectual property while guaranteeing its productivity and competitiveness.

The company's 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 policy is to recruit and develop the best skills, at headquarters and in 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 policy is to implement the projects necessary to simplify the organization with the help of the new working methods, and high-performance internal information systems.

Economic Headcount

The Group's economic headcount at December 31, 2012 (number of full-time equivalent persons on the payroll), was 1,345 worldwide (1,338 at December 31, 2011). The Group's legal headcount is 1,382. Its customer relations teams (marketing, sales and services activities) account for 51% of the headcount; research and development 16%; production and logistics 11%; and administration and finance, human capital management, and information systems 22%.
31% of the headcount at December 31, 2012, have joined the company in the past five years, 25% of them in the last 36 months.
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 the parent company, Lectra SA, and its 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 (unchanged from 2011) and form the majority of staff in its sales (80%), customer support (86%), manufacturing (80%) and R&D (82%) teams. Conversely, although women represent 35% of the total headcount (unchanged from 2011), they are in the majority in other areas such as marketing (72%), administration and finance, human resources, and information systems (66%). Genders are evenly split in the professional training and consulting services (49% men, 51% women). Women accounted for 44% of recruitments, on average, in the period 2010-2012.
Finally, Europe accounts for 71% of employees (including 48% in France and 23% in the rest of Europe), Asia-Pacific 12%, the Americas 12%, and the rest of the world 5%.

Training and Integration

Lectra invests heavily in training for its employees whose expertise 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.
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 forming part 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,

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.
Moreover, Lectra organizes an induction seminar, "Lectra Together" for all new recruits on arrival in the Group. The seminar lasts between 5 and 10 days, depending on the profiles concerned, and managers provide follow-up coaching.
The training plan initiated in 2011 is a highly ambitious one with a special focus on enriching the capabilities of all Group sales, marketing and consulting teams, as part of the company's accelerated transformation plan and support for the large number of new recruits. 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.
In 2012, the Group invested €3.2 million in training, representing 3.9% of total staff costs (versus €3.2 million and 4.1% in 2011). 79% of employees attended at least one training program in 2012 (86% in 2011).

Environmental disclosures

In view of their specific nature (design, production and distribution of software and CAD/CAM equipment, and related services), the Group's activities have very little impact on the environment.
As a result, the company has no internal department concerned with environmental management, nor with training or briefing for employees on this subject, and does not dedicate specific resources to reducing environmental hazards, nor to the introduction of an organization for dealing with accidental pollution liable to have consequences outside of the company's premises. However, many employees have been made aware of environmental issues and incorporate these into their decisions.
More generally, the Group's efforts with regard to the environment focus on three main aspects:
– eco-design of CAD/CAM equipment, aimed at reducing raw materials usage in its manufacture, as well as its weight and dimensions. Other goals include limiting the use of polluting or hazardous materials, reducing noise levels in machinery, and raising the share of recyclable products used. This notably entails compliance with a wide range of standards that have yet to become mandatory. This policy also seeks to reduce energy consumption.
– products and services enabling the Group and its customers to reduce their CO_2 emissions, and their consumption of energy and natural resources. This is notably the case for remote diagnostic systems (part of the "smart services" offer), which serve to maintain the performance and guarantee a very high level of availability in customers' software and CAD/CAM equipment without the need for technicians to visit customers' facilities. Moreover, thanks to Lectra solutions, customers are able to limit the number of physical prototypes needed in order to develop their products as well as reduce their consumption of raw materials (e.g. fabrics, leather, technical textiles and composite materials) in their manufacture.
– investing in infrastructure designed to preserve the environment. At its Bordeaux-Cestas facility, for example, the Group has invested in energy-saving infrastructure to cut down on heating and lighting needs. It has also invested heavily in programs to dematerialize documents and virtualize its data servers, yielding substantial gains in paper and energy consumed. Finally, the Group has invested in high-performing videoconferencing systems, which now equip corporate headquarters and almost all subsidiaries worldwide. These are used intensively, significantly reducing the need for travel (primarily by plane, given the worldwide locations of its teams) and resulting greenhouse gas emissions.
The Group considers that its activities are without impact on biodiversity and therefore has no specific program devoted to preserving or developing this.
Finally, no provision is made nor guarantee recognized for environmental risks in its financial statements.
It has never paid any compensation in execution of a court decision on environmental grounds, and has no knowledge of any violation by any of its foreign subsidiaries of local environmental rules.

Subcontractors

The Group subcontracts the production of sub-assemblies of the CAD/CAM equipment it markets to a network of regional, national, and foreign companies (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 has for many years pursued a policy of responsible procurement, notably through the promotion of local subcontracting, reducing the number of outside suppliers, streamlining its logistics so as to minimize its recourse to transportation and packaging, the use of recyclable materials, promoting recycling, instituting a responsible procurement charter between the company, its suppliers and subcontractors, the inclusion of social and environmental criteria in its specifications, calls for tenders and bid selection criteria, and implementing contracts recalling its social and environmental requirements.
The Group encourages its subcontractors and suppliers to implement policies contributing to the conservation of natural resources, and to the reduction and elimination of their waste by means of solutions that respect the environment.
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

The Group has chosen to focus its commitment on the educational sector, with a special emphasis on training for the professionals of tomorrow.
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 850 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 the professionals of tomorrow 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 Brazil, Canada, China, France, Germany, India, Italy, the Netherlands, Poland, 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 fifth consecutive year, following Shanghai in 2010 and Bordeaux in 2011, Lectra invited the representatives of its "Privilege" partners to a congress at London in November 2012. The event attracted 55 professors, department heads, and head teachers or directors from 26 fashion schools and colleges.

These partnerships represent a major investment by the Group, equivalent to the value of more than 60,000 active software licenses, made available at no charge to professors and students.
At the same time, the Group works with the world's leading trade associations, such as the *Fédération française de la couture, du prêt-à-porter des couturiers et des créateurs de mode* (French *haute couture*, ready-to-wear and fashion designers' federation).
It works closely with all players in the sector in order to anticipate industry developments and help them remain highly competitive in an environment subject to the vagaries of a complex global economy and to the new challenges of the post-crisis economy.
Additionally, Lectra has become involved as a founding partner of the Institute for Innovation and Competitiveness, created in 2011 and supported by ESCP Europe and the Europe+ Foundation. This veritable think tank aims to promote a broader vision of innovation and serve as a forum 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 has continued to invest significantly in research and development.
Its R&D teams comprise 212 persons at December 31, 2012, including 197 in France, 13 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 €17.4 million in 2012, or 8.7% of revenues (€18.2 million and 8.9% in 2011). Net R&D expense, after deducting the research tax credit and grants, amounted to €11.5 million (€11.5 million in 2011).

These substantial investments (a total of nearly €170 million over the past ten years, reflecting a technology asset valued at zero in the statement of financial position) have enabled the company to maintain and even strengthen its technology lead over its competitors.

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

The Shareholders' Meeting of April 27, 2012, renewed the program in place since the Shareholders' Meeting of April 29, 2011, 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.

Transactions by the company on its own account

The company is not authorized to make any transactions to purchase and sell company shares on its own account.

Liquidity Agreement

On May 21, 2012 Lectra contracted with Exane BNP Paribas to act as liquidity provider under a Liquidity Agreement, signed in accordance with the Charter of Ethics of the *Association Française des Marchés Financiers* (AMAFI) recognized by the *Autorité des Marchés Financiers* (AMF). Previously, the Liquidity Agreement was managed by SG Securities (Société Générale).
Under this Liquidity Agreement, from January 1 to December 31, 2012, the company purchased 118,644 shares and sold 168,214 shares at an average price of €4.53 and €4.59 respectively.
Consequently, at December 31, 2012, the company held 84,284 Lectra shares (or 0.3% of share capital), at a par value of €1.00, with an average purchase price of €4.51,

entirely under the Liquidity Agreement (respectively 57,290, 0.2% and €4.93 at the date of this report). Additionally, Lectra may increase the resources allocated, if necessary, by contributing up to €1 million (of which €75,000 was paid in May 2012), with a maximum corresponding to the market value of 150,000 Lectra shares.

Renewal of the Share Buyback Program

The Board of Directors has proposed to the General Meeting of Shareholders of April 30, 2013, 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, 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.
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.

Maximum Percentage of Capital Stock and Maximum Number of Shares that the Company Proposes to Purchase
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 3% of the capital stock (representing 870,304 shares at the date of this report), adjusted for transactions that may affect it subsequent to the date of the Ordinary Shareholders' Meeting, where appropriate.

Characteristics of Shares Concerned by the Buyback Program
Lectra shares are listed on compartment C on NYSE Euronext (ISIN code: FR0000065484).
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;
– gross 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 30, 2014.

11. POST-CLOSING EVENTS

The Madrid Court of Appeal Upholds the Enforcement in Spain of the October 2009 Award Rendered Against Induyco by the International Arbitral Tribunal

In a decision issued on January 28, 2013, the Madrid Court of Appeal upheld the judgment of the Madrid Court of First Instance of June 27, 2011, recognizing the validity and enforceability in Spain of the arbitral award rendered against Induyco in October 2009 by an International Arbitral Tribunal seated in London.
After Induyco refused voluntarily to pay the outstanding amounts still due to Lectra, Lectra commenced an action of *exequatur* before the Madrid Court of First Instance in December 2010, in order to enforce in Spain the arbitral award and recover the remaining amounts owed by Induyco (€11.1 million out of €26.2 million, as at December 31, 2012). The Madrid Court of First Instance had confirmed the validity and enforceability of the award, and the decision rendered by the Madrid Court of Appeal confirms this judgment. With this decision, the Madrid Court of Appeal has, in turn, rejected Induyco's challenge to Lectra's claim for *exequatur*.
Lectra is determined to pursue the execution of the award until the payment of the full amount due to it.
The January 28, 2013, decision does not modify the accounting of the award in the company's financial statements. The company has only recorded the €15.1 million received in 2010 and conclusively non-refundable. As Induyco was merged into El Corte Inglés on December 18, 2012 and immediately dissolved, El Corte Ingles has now replaced Induyco as the current debtor of Lectra for the balance (€11.1 million) still due which will only be recorded in the accounts upon its receipt.

As all of the costs incurred by Lectra have already been paid, the execution of the exequatur decision will result in a cash inflow equal to the balance of the award still owed by El Corte Inglés (see note 23.2 of the consolidated financial statements).
No other significant event has occurred since December 31, 2012.

12. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 30, 2013.
First, second, and third quarter earnings for 2013 will be published on April 29, July 25, and October 29, 2013, respectively, after the close of trading on Euronext.
Full-year earnings for 2013 will be published on February 12, 2014.

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 27, 2012 authorized the issuance of shares within the framework of a stock option plan for a period of thirty-eight months expiring on June 27, 2015 (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, 2010.

14. BUSINESS TRENDS AND OUTLOOK

Economic conditions have shown signs of further worsening from the second quarter of 2012 onward. These conditions are likely to remain in 2013—which also looks both difficult and unpredictable—and perhaps even beyond, given the downward revisions of growth forecasts for 2013 and 2014 for most developed and emerging countries.
Consequently, corporations are at risk of facing greater difficulty in financing capital expenditures. As in 2012, even more than deteriorating macroeconomic conditions, the alternation of good news and bad news, the lack of visibility, and the growing concerns of companies as long as there are still no signs of a sustainable improvement in the economy, will continue to weigh heavily on those companies' investment decisions.
Faced with slower growth, most major countries—particularly the United States, China, and Japan—have already eased or could ease their monetary policy. Besides the risk to the global economy that may result, such policies could result in a lasting rise in the euro.

A New Strategic Roadmap for 2013-2015

Formulated at the end of 2009 with a view to emerging strengthened from the crisis, to prepare for the new post-crisis challenges and seize resulting opportunities, the 2010-2012 strategic roadmap has fully demonstrated its efficacy, the strength of Lectra's business model, and once again demonstrated the company's resilience. On the strength of its success, at the end of 2012 the company framed a new roadmap for 2013-2015 to enable it to fully realize its growth potential.
Continuing to focus on long-term strategy, its overriding objectives remain unchanged: accentuate Lectra's technological leadership and the high added value of its product and service offer; strengthen its competitive position and its long-term relationships with customers; accelerate organic growth; boost profitability by regularly increasing operating margin; and generate free cash flow in excess of net income (assuming that the French research tax credit and new tax credit for encouraging competitiveness and jobs recognized in the year is received or used) serving to finance its future growth from its own cash.

Building for the Future in the New Economic Order

Eight economies (Brazil, Russia, India, China, South Korea, Indonesia, Mexico and Turkey) are expected to account for half of global growth in the present decade. Following China's example, their growth models will increasingly be driven by their domestic markets,

greater value added and the search by companies for higher margins. Lectra is well armed to turn this new economic order into a vehicle for dynamic growth.
The other half of global growth will still take place in developed countries, where Lectra already has a significant market share.
From this dual-growth perspective, the company will benefit from its premium positioning, sustained by the new generations of all of its solutions, enhanced technological leadership, high performing services, the expertise of its staff in their customers' businesses, and its growing importance as a supplier to major global customers as it supports them in their drive for competitiveness, primarily targeting the group's top 3,000 customers (15% of the total) and providing dedicated resources for the top 300. Lectra is the only player in its industry supplying a complete high value added offer across all its geographic markets and market sectors, giving its customers a unique long-term competitive advantage.
Five accelerators will drive Lectra's growth: emerging countries, together with the industrial revival in the United States and other developed countries; the automotive market—an industry currently experiencing far-reaching technological and geographical change; the leather market, thanks to the revolutionary new range of *Versalis* automated cutters; PLM for fashion, collaborative solutions facilitating collection management; and, finally, 3D technology for fashion, a new universal product development solution.

Deliberately Cautious Macroeconomic Assumptions

This roadmap assumes that macroeconomic conditions will be as weak as in 2012, consistent with known growth forecasts for 2013 and 2014 at the date of this report, while taking into account a rise in business confidence. After all, businesses will need to adapt and build for their own futures within these conditions, gradually encouraging them to resume their investment decisions. As the very strong rebound in orders in 2010 and the first half of 2011 showed, 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 postponed over several years and acquire the technologies necessary to boost their competitiveness and their growth.
The crisis and its further developments in 2012 have amplified the challenges they face.

Clear And Ambitious Financial Goals

The main goals contained in the 2013-2015 strategic roadmap are (like-for-like variations):
– a compound annual revenue growth rate equal to or greater than 10%;
– a 15% operating margin (excluding non-recurring items) in 2015;
– to more than double income from operations (excluding non-recurring items) and net income in three years.
These goals go together with a determination to maintain a tight grip on key operating ratios, preserving a security ratio (ie the percentage of annual fixed overhead costs covered by gross profit on recurring revenues) equal to or greater than 75%.
They are founded on organic growth and are based on the exchange rates of February 1, 2013, also retained for the 2013 scenarios, in particular $1.35/€1.
If these goals were met, income from operations excluding non-recurring items would be multiplied by nearly 4 in 2015 relative to 2007, the last pre-crisis year, and the operating margin (excluding non-recurring items) would rise by nearly 10 percentage points, on an actual basis.
Given the uncertainties at a time when forecasting is difficult, it may be necessary to revise these goals in the course of the next three years.
It should be noted that the French government has pledged to maintain the research tax credit unchanged for the duration of the incoming president's five-year term.

Far-Reaching Company Transformation Plan and Investments for the Future

Faced with the scale of the economic crisis in 2008-2009, the company reduced its fixed overhead costs by 20%, bringing them down from €124 million in 2007 to €100 million in 2010. Its roadmap called for a second transformation phase in order to build its new post-crisis structure.
Innovation, human capital united around a strong corporate culture built on core values, uncompromised ethics in conducting business, and proximity to customers, continue to drive Lectra's leadership.

On the strength of its results, the company has therefore decided to give precedence to its long-term strategy rather than to short-term profitability, by devoting the requisite financial resources to this goal.
This three-point plan will cover the period to 2015, comprising:
– a major recruitment plan devoted to strengthening sales and marketing teams, which will grow from 220 people at the end of 2011 to 330, and from 16% to 22% of the total headcount (with a doubling of the number of sales people);
– the addition of 40 engineers to the R&D teams in Bordeaux-Cestas bringing the total number to 260;
– accelerated investment in marketing.
Over the period, the transformation will entail more than 300 hirings overall, 110 of which have been made already, in 2012. If the recruitment program is executed in full, Lectra's headcount should rise by around 200 to 1,540 by the end of 2015. This is equivalent to the pre-crisis level of 1,551 in 2007, but with resources reallocated to core strategic activities and the most promising geographic markets and market sectors, operating more efficiently, with enhanced skills and improved performance.
These investments for the future will represent a cumulative €50 million over the period 2012-2015, fully expensed, while their benefits will only be felt progressively.
Fixed overhead costs will continue to be limited to around €130 million in 2015, versus €102 million in 2011, before the launch of the transformation plan.
Adjusting for inflation, the level of fixed overhead costs in 2015 would be below that of 2007.

Fully Internally Funded Development

The company's annual free cash flow should continue to exceed net income (assuming utilization or receipt of the research tax credit and new tax credit for encouraging competitiveness and jobs applicable in France), enabling it to pursue its policy of paying dividends to shareholders while financing its future development.
Its goal is to be free of all financial debt once the 2007 medium-term loan has been repaid out of cash available, at the end of 2013.
Lectra's receipt of the €11.1 million still owed it in the litigation against Induyco will further bolster its cash position.
The company will pursue its dividend-payment policy. Barring further changes to the taxation of dividends in France, the total dividend is expected to represent a payout ratio of around 33% of net income (excluding non-recurring items), the remaining 67% serving to finance the company's growth internally. Exceptionally, this ratio could rise to or exceed 50% until the investments for the future have produced their impact in full, insofar as they are already taken into account in the computation of net income and free cash flow.
Lastly, besides the Liquidity Agreement, the company will not implement any share buyback plan. It will preserve its cash in order to finance future targeted acquisitions in the coming years, should the right opportunities arise on favorable terms, while its organic growth continues to be financed internally thanks to its business model.

2013 Outlook

The weak level of orders in 2012 may continue throughout part or all of the year, until companies truly resume their investment activity.
Consequently, visibility remains limited, calling for continuing caution.

High Sensitivity to Exchange Rates

The appreciation of the euro since the beginning of 2013 against the dollar and several other currencies has led the company to base its 2013 scenarios on the exchange rates of February 1, 2013, notably $1.35/€1.
Exchange rate changes from the 2012 averages have the effect of reducing 2012 revenues and income from operations, converted to 2013 retained exchange rates, by €6.2 million and €3.1 million respectively, to €192.2 million and €16.7 million; the operating margin falls 1.3 percentage point to 8.7%.
At the date of this report, the company has not hedged its currency exposure for 2013.
Sensitivity to fluctuations in the value of the dollar and other currencies is covered in note 33 to the financial statements in this report.

Key Financial Features

Key financial features of the 2013 plan are (like-for-like variations):

– keeping gross profit margins on the different product lines at their 2012 levels;

– an increase of around 4% to 5% in recurring revenues. Recurring contracts are expected to increase by around 3% to 4%, and sales of spare parts and consumables by 4% to 6%, given the increase in the installed base and the activity and output at customer firms;

– fixed overhead costs of around €120 million, up €9.7 million (+8.7%) relative to 2012. Of this €120 million, €12.3 million, or 10% of this increase, is attributable to the company's transformation plan;

– a security ratio of 76%.

As in previous years, the main uncertainty concerns the level of revenues from new systems sales.

In the most cautious scenario, with customer purchasing decisions remaining on hold and the transformation plan producing only part of the expected gains, the company expects total revenues of approximately €203 million (+6% vs. 2012) for the fiscal year, income from operations before non-recurring items of around €15 million (–10%), reducing the operating margin before non-recurring items to approximately 7.5%, and net income of around €10 million (–25% at actual exchange rates).

The company's goal is to exceed these figures. For every extra €1 million in revenues from new systems sales, income from operations would increase by approximately €0.45 million.

Free cash flow should exceed net income less the (French) research tax credit and the new tax credit for encouraging competitiveness and jobs accounted for in 2013 (around €6.8 million), capital expenditures (besides the investments for the future and R&D expenditures being expensed in full) being limited to around €5–€7 million.

Limited Impact of New French Tax Measures

It is pointed out that the net impact of the new tax measures enacted by the new French government in 2012 will be slightly positive (€0.1 million): new tax charges, including the tax on dividends paid, are expected to come to around €0.4 million and the tax credit for encouraging competitiveness and jobs to around €0.5 million.

The Company is Confident in its Medium-Term Growth Prospects

The company entered 2013 with a very strong balance sheet and solid operating fundamentals.

Bolstered by its performance since 2010, the strength of its business model and the relevance of its new strategic roadmap, the company is confident in its growth prospects for the medium term.

The Board of Directors
February 28, 2013

SCHEDULE OF AUTHORITY TO INCREASE THE CAPITAL AT THE CLOSE OF FISCAL YEAR 2012

Note to chapter 13 of the Management Discussion

Type of issue	Authorization date	Maturity	Term	Maximum amount	2012 Utilization
Stock options[1]	April 27, 2012	June 27, 2015	38 months	Capital: €1,500,000	Amount utilized: €548,212
Total authorized, non expired and unutilized at December 31, 2012				**€951,788**	

(1) The General Shareholders Meeting of April 27, 2012 authorized the creation of a new stock option plan for a maximum of 1,500,000 options with a par value of €1.00. The maximum amount and amounts utilized at December 31, 2012 are shown with the par value of the shares; 548,212 options had been utilized at December 31, 2012, and 951,788 remained at the Board's disposal (see note 15.5 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 28, 2013

Daniel Harari
Chief Executive Officer

Jérôme Viala
Chief Financial Officer

CHAIRMAN'S REPORT ON INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT, AND ON CORPORATE GOVERNANCE

Dear 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 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.

As required by the French Act (Law no. 2011-103) of January 27, 2011, this report also discusses the application of the principle of balanced representation of men and women on the Board. 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 Corporate Governance Code of Listed Companies (the consolidated code of December 2008, updated in April 2010, hereafter referred to as 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 fourth annual report on the application by SBF 120 companies of their Code of Corporate Governance in December 2012.

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, 2012, (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 12, 2013.

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 has four members: André Harari, Chairman of the Board of Directors, Daniel Harari, CEO, Anne Binder and Bernard Jourdan.
After the deaths in 2011 of Louis Faurre and Hervé Debache, the Board of Directors had co-opted Anne Binder and Bernard Jourdan respectively on October 27 and December 21, 2011 as new independent directors. This cooptation was ratified by the Shareholders' Meeting of April 27, 2012.
Following the renewal of the Board of Directors, the Directors have devoted several meetings of the Strategic and Compensation Committees to enabling the two new Directors to acquire a thorough understanding of the company, its organization and mode of operation, and its product and service offer, together with a review of the new 2013-2015 strategic roadmap.

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 28, 2013, André Harari held 5,606,851 of the company's shares, and Daniel Harari 5,507,560 shares (i.e., respectively 19.3% and 19.0% 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.

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 was not the case at Lectra, where for very many years the by-laws stipulated a duration of six years.

The Board of Directors has therefore expressed its intent to comply with the AFEP-MEDEF Code and proposed to the Shareholders' Meeting of April 27, 2012 that the terms of office of the new directors be reduced to four years.

Consequently, the directorships of André Harari and Daniel Harari, which expired at the close of this Shareholders' Meeting, and those of Anne Binder and Bernard Jourdan, were renewed for a period of four years, on April 27, 2012. They will terminate in 2016 at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2015.

As a result of the foregoing, the company has not complied with the recommendation of the AFEP-MEDEF Code regarding the staggering of directors' terms. It considers that, given the small number of Directors, maintaining the stability of the Board of Directors, with coincident terms of office, is an important factor to the proper functioning of the Board and its Committees.

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 Ordinary 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, ie 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, and the confirmation of her appointment by the Shareholders' Meeting of April 27, 2012, 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).

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.

Until December 31, 2012, each committee had 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, were consistent with the proper representation of the interests of the different shareholders of the company.

The AFEP-MEDEF Code recommends that the Audit and Compensation Committees contain no executive director. This was not the case until December 31, 2012, since the Board had 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).

Moreover, 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 not start to apply to the company until August 31, 2013. André Harari voluntarily relinquished his membership of the Audit Committee on December 31, 2012, in anticipation of the coming into force of these new legal requirements.

Consistent with this decision, respecting the recommendations of the AFEP-MEDEF Code on this subject, he also terminated his membership of the Compensation Committee on the same date.

Audit Committee

Membership

The members of the Audit Committee were Bernard Jourdan, Committee Chairman, Anne Binder, and André Harari. This Committee has consisted of two independent directors, Bernard Jourdan, Chairman of the Committee, and Anne Binder, since January 1, 2013.

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 is the case with its members, in view of their academic qualifications and professional career, as described in their biographies. In particular, Bernard Jourdan, the 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 the 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 recommendations.

Meetings and Activities

The Audit Committee meets at least four times a 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 2012. All members of the Committee were present or represented at all five of its meetings, with an effective attendance rate, excluding proxies, of 100%.

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 2012, then on February 12 and February 28, 2013, for the review of the fiscal 2012 financial statements (André Harari having been invited to attend), the Committee

notably reviewed the goodwill impairment tests and deferred tax assets at December 31, 2012, together with the impacts on the financial statements of the supplementary French Budget Acts *(lois de finances rectificatives)* for 2012, of August 16 and December 29, 2012, and of the December 29, 2012 Budget Act *(loi de finances)* for 2013.
The Committee also reviewed the implementation of the new provisions of the French "Grenelle II" Act (Law no. 2010-788) of July 12, 2010, and its enabling decree published on April 24, 2012, and in particular the required items for inclusion in the Board of Directors' report submitted to the Annual Shareholders' Meeting.
The Committee also reviewed the company's 2013 budget as well as the 2013 revenue and income from operations scenarios, together with the macroeconomic assumptions 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 companies 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 amount of 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, at the Committee's recommendation, additional work or work directly complementing the audit of the financial statements is performed; 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 Bernard Jourdan, Committee Chairman, Anne Binder, and André Harari. This Committee has consisted of two independent directors, Bernard Jourdan, Chairman of the Committee, and Anne Binder, since January 1, 2013.

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. In view of its importance, the Compensation Committee regularly discussed progress of the the Group's recruitment plan for 2012-2014. The consequences of changes in French tax and social legislation are also reviewed regularly.
The Committee met four times in 2012. All members of the Committee attended at these meetings, resulting in an effective attendance rate, excluding proxies, of 100%.
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.

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 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 four times in 2012, as well as on January 31, 2013, in particular to review and discuss progress in execution of the 2010-2012 strategic roadmap, adopted at the end of 2009 in order to prepare the Group for the new global post-crisis economic challenges, to continue strengthening its business model and its key operating and financial ratios, analyze the main risks internal to the company and external risks (macroeconomic, technological, and competitive), and to formulate recommendations. This applies also to progress in fulfilling the company's transformation plan launched in September 2011. The Committee 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 priorities and the new strategic roadmap for the Group for 2013-2015 adopted end of 2012, its different scenarios for 2013, together with the broad outlines of the 2013 action plan, research and development plans, and marketing and human resources plans.

In view of the importance of these subjects, the Chief Executive Officer and the other two members of the Executive Committee were invited to attend several of this Committee's meetings.
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 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.
Until 2011, the Board of Directors had not 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, at its meeting of February 9, 2012 the Board of Directors adopted a set of internal rules and procedures. The full text of 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-five calendar days after the Annual Shareholders' Meeting if there is no dividend, ie around June 10, for the granting of the annual stock option plan. Exceptionally in 2012, in light of the uncertainties surrounding taxation and social contributions, which were only removed on publication of the second Supplementary Budget Act for 2012 on August 16, 2012, the meeting of the Board of Directors to discuss the granting of stock options took place on September 4, 2012.

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 eight times in 2012. All members of the Board were present or represented at all of its meetings, with an effective attendance rate, excluding proxies, of 100%.

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 2012 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 is considered once a year during the February Board meeting, which reviews and closes the financial statements for the year elapsed. In particular, the new directors, Anne Binder and Bernard Jourdan, were asked for their views on this subject at the February 12, 2013 meeting of the Board of Directors. The directors considered that the functioning of the Board was highly satisfactory. They notably emphasized the quality of the information communicated to them and the time frame in which it is communicated, giving them sufficient time to analyze it, together with the program drawn up by the Chairman to introduce the new directors rapidly to the businesses and specific characteristics of Lectra. The directors also emphasized the frequency of the meetings of the Board, and of the Strategic, Compensation and Audit Committees, together with the regular attendance of their members. Finally, the directors expressed the wish that the Chairman would be invited to attend the meetings of the Audit and Compensation Committees.

The AFEP-MEDEF Code 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 are accustomed to 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.
The main risks to which the company is exposed, given the specific nature of its activities, structure and organization, and that of its strategy and business model, are discussed in chapter 4 of the Management Discussion, to which the reader is referred. This chapter was reorganized in 2011 to better highlight the specific risk factors to which the Group is exposed, in a more orderly manner.

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 the company's 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 responsible, together with the other members of the Executive Committee, for worldwide sales and service operations, of which the regional managers and subsidiaries form part.
The heads of the Lectra Group's various corporate divisions also report directly to the Chief Executive Officer or to another member of the Executive Committee, their organization and missions being adapted to the changing external and internal context of the company, ie:
– the Finance division (treasury, accounting and consolidation, management control and audit, sales administration, and legal affairs);
– the Manufacturing division (purchasing, manufacturing, logistics, quality control);
– the Human Resources and Information Systems division;
– the Sales division;
– the Marketing and Communication divisions;
– the Customer Support Services division;
– the Professional Services division (training, consulting);
– the Software and Hardware Research and Development divisions.
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 or by one of the Executive Committee members, 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 project to overhaul all IT systems, launched in 2005, involved the deployment of a new ERP application within the parent company on January 1, 2007, and was subsequently deployed progressively in almost all of the Group's subsidiaries. Functions concerned 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 the subsidiaries in which the application has already been deployed.
This system has introduced new operational modes with improved management procedures and rules, thanks in particular to better integration of business processes. Thanks to integrated inter-company financial information, assured homogeneity and communicability between the Group's different IT systems, and their continuous adaptation to developments in business processes and modes of operation, together with tighter controls, the information system now plays a structurally critical role in the Group's system of internal control, and acts as a key performance-tracking instrument. A new statutory accounts consolidation application was deployed in 2010 in order to facilitate data capture, strengthen controls ensuring the quality of financial information, and improve the analytical capabilities of the finance teams, based on automatically generated reports.
Moreover, a new Group human resources administration information system was deployed in 2010. In particular, it serves to track personnel (recruitment, 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.
In addition, one or more quarterly reviews of current business are organized with each region and subsidiary by a member of the Executive Committee and the Director, Sales.
Finally, procedures have been put in place for more effective monitoring of sales teams' performance, including tracking their fulfillment of targets and of individual performance (business expertise, knowledge

of Lectra's products and services, and their proficiency in sales methods and tools).

- **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, no individual customer representing more than 6% of consolidated revenues, 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 information system now in place reinforces the process of control over the proper application of rules.

- **Personnel**

Under the procedures in place all forecasted 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 forecasted 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.
These procedures are now monitored more closely, in light of the significant recruitment plan now in place for the period 2012-2015.

- **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 and entries in the company's bank accounts made by the banks, 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 since 2011 to secure payments made by bank transfer.
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, when these are considered justified.

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 and Improvement of Procedures

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 new ERP application with effect from January 1, 2007, the Group-wide development of a new human resources information management system in 2010, and the new statutory consolidation system.
This matter is the subject of a specific communication to the Audit Committee and discussion at least once a year.

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 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 a 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, by the Chairman of the Board of Directors in the course of organizing the work of the Board of Directors, and then submitted to the Audit Committee, before being reviewed and approved by the Board of Directors, and published by the company.

2.4. Specific Mechanism to Guarantee the Reliability of Social, Environmental and Societal Information

A working group has been put in place, under the supervision of a member of the Legal Affairs Department, to coordinate the gathering and verification of the social, environmental and societal information whose disclosure is now mandatory, under the 2012 "Grenelle II" Act.

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 and Analysis to which this report is amended.

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 (for Daniel Harari alone, André Harari's contract having expired in 2009), which amount is indicated in the Management Discussion and Analysis. 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.

The variable portion of their compensation is determined on the basis of quantitative criteria (to the exclusion of all qualitative criteria) expressed in terms of annual targets. Performance criteria were expanded by the Board of Directors in 2011 and now included 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 the variable portion 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 had 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 resulting uncertainties, the Board has decided to maintain this compensation unchanged for a further year. 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 ten managers of the parent company Lectra SA (for these persons, the relative share of variable compensation in their total compensation, together with the relative weighting given to the abovementioned performance criteria, are set individually).

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

The Board of Directors decided on May 23, 2006 , in keeping with the rules of corporate governance and, since its publication, with the AFEP-MEDF Code, 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. However, contrary to the recommendations of the AFEP-MEDEF Code, 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 is regularly updated by the Board of Directors 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 at least once a year 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 28, 2013

Consolidated financial statements

STATEMENT OF FINANCIAL POSITION
consolidated

ASSETS

As at December 31 (in thousands of euros)		2012	2011
Goodwill	note 6	31,132	31,309
Other intangible assets	note 7	4,273	4,742
Property, plant and equipment	note 8	12,959	11,589
Non-current financial assets	note 9	1,871	1,899
Deferred tax assets	note 11	8,631	9,543
Total non-current assets		**58,866**	**59,081**
Inventories	note 12	22,756	21,112
Trade accounts receivable	note 13	45,149	44,533
Other current assets	note 14	22,108	17,187
Cash and cash equivalents		20,966	26,320
Total current assets		**110,979**	**109,152**
Total assets		**169,845**	**168,233**

EQUITY AND LIABILITIES

(in thousands of euros)		2012	2011
Share capital	note 15	28,948	28,037
Share premium	note 15	2,600	2,487
Treasury shares	note 15	(380)	(722)
Currency translation adjustment	note 16	(8,840)	(8,816)
Retained earnings and net income		42,995	37,700
Total equity		**65,323**	**58,686**
Retirement benefit obligations	note 17	6,393	4,512
Borrowings, non-current portion	note 18	892	16,684
Total non-current liabilities		**7,285**	**21,196**
Trade and other current payables	note 19	44,265	46,696
Deferred revenues	note 20	41,911	35,722
Current income tax liabilities	note 11	1,545	1,776
Borrowings, current portion	note 18	5,834	1,005
Provisions for other liabilities and charges	note 21	3,682	3,152
Total current liabilities		**97,237**	**88,351**
Total equity and liabilities		**169,845**	**168,233**

The notes on pages 97 through 155 are an integral part of the consolidated financial statements.

INCOME STATEMENT
consolidated

Twelve months ended December 31 (in thousands of euros)		2012	2011[1]
Revenues	note 24	**198,436**	**205,923**
Cost of goods sold	note 25	(53,475)	(61,613)
Gross profit	note 25	**144,961**	**144,310**
Research and development	note 26	(11,536)	(11,463)
Selling, general and administrative expenses	note 27	(113,611)	(103,544)
Income (loss) from operations		**19,814**	**29,303**
Financial income	note 30	318	656
Financial expenses	note 30	(1,336)	(2,204)
Foreign exchange income (loss)	note 31	(287)	(165)
Income (loss) before tax		**18,509**	**27,590**
Income tax	note 11	(4,865)	(8,134)
Net income (loss)		**13,644**	**19,456**
(in euros)			
Earnings per share	note 32		
– basic		0.47	0.68
– diluted		0.47	0.66
Shares used in calculating earnings per share			
– basic		28,806,716	28,709,129
– diluted		29,280,673	29,368,796

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)		2012	2011[1]
Net income (loss)		**13,644**	**19,456**
Currency translation adjustment	note 16	(24)	61
Actuarial gains (losses) on defined benefit pension liabilities	note 17	(2,096)	(381)
Effective portion of the change in fair value of interest-rate swaps	note 18	326	837
Tax effect on the comprehensive income items		465	(162)
Comprehensive income (loss)		**12,315**	**19,811**

(1) As required in the standard IAS 8, the impacts of the change in the method of recognition of actuarial gains and losses arising from the measurement of defined benefit pensions in the statement of comprehensive income, as explained in the note 2 "Accounting rules and methods" hereafter, are restated in the consolidated income statement and in the statement of comprehensive income at December 31, 2011.

The notes on pages 97 through 155 are an integral part of the consolidated financial statements.

STATEMENT OF CASH FLOWS
consolidated

Twelve months ended December 31 (in thousands of euros)		2012	2011[1]
I - OPERATING ACTIVITIES			
Net income (loss)		13,644	19,456
Depreciation and amortization		6,458	4,787
Non-cash operating expenses	note 36	(19)	(40)
Loss (profit) on sale of fixed assets		(39)	(9)
Changes in deferred income taxes, net value	note 11	1,213	3,373
Changes in inventories		(1,974)	(1,646)
Changes in trade accounts receivable		3,711	(1,301)
Changes in other current assets and liabilities		(6,674)	(6,908)
Net cash provided by (used in) operating activities	note 37	**16,320**	**17,712**
II - INVESTING ACTIVITIES			
Purchases of intangible assets	note 7	(1,278)	(906)
Purchases of property, plant and equipment	note 8	(3,786)	(2,837)
Proceeds from sales of intangible assets and property, plant and equipment		169	159
Purchases of financial assets	note 9	(861)	(1,134)
Proceeds from sales of financial assets	note 9	973	1,200
Net cash provided by (used in) investing activities		**(4,783)**	**(3,518)**
III - FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	note 15	156	1,841
Dividends paid		(6,330)	(5,164)
Purchases of treasury shares	note 15	(537)	(1,017)
Sales of treasury shares	note 15	772	1,049
Proceeds from long term and short term borrowings	note 38	–	–
Repayments of long term and short term borrowings	note 38	(10,934)	(14,931)
Net cash provided by (used in) financing activities		**(16,873)**	**(18,222)**
Increase (decrease) in cash and cash equivalents		**(5,336)**	**(4,028)**
Cash and cash equivalents at the opening		**26,320**	**30,174**
Increase (decrease) in cash and cash equivalents		(5,336)	(4,028)
Effect of the consolidation of Lectra Morocco		137	–
Effect of changes in foreign exchange rates		(155)	174
Cash and cash equivalents at closing		**20,966**	**26,320**
Free cash flow before non-recurring items		11,537	15,181
Non-recurring items of the free cash flow		–	(987)
Free cash flow	note 39	**11,537**	**14,194**
Income tax paid (reimbursed)		3,342	254
Interest paid		626	1,487

(1) As required in the standard IAS 8, the impacts of the change in the method of recognition of actuarial gains and losses arising from the measurement of defined benefit pensions in the statement of comprehensive income, as explained in the note 2 "Accounting rules and methods" hereafter, are restated in the statement of consolidated cash flows at December 31, 2011.

The notes on pages 97 through 155 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, 2011		**28,499,014**	**0.97**	**27,644**	**1,039**	**(386)**	**(8,877)**	**22,612**	**42,032**
Net income (loss) [1]								19,456	19,456
Other comprehensive income (loss) [1]	note 16						61	294	355
Comprehensive income (loss)							**61**	**19,750**	**19,811**
Exercised stock options	note 15	404,596	0.97	392	1,449				1,841
Fair value of stock options	note 15							257	257
Sale (purchase) of treasury shares	note 15					(336)			(336)
Profit (loss) on treasury shares	note 15							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**
Net income (loss)								13,644	13,644
Other comprehensive income (loss)	note 16						(24)	(1,305)	(1,329)
Comprehensive income (loss)							**(24)**	**12,339**	**12,315**
Increase of par value per share	note 15		0.03	868				(868)	–
Exercised stock options	note 15	44,705	0.99	44	112				156
Fair value of stock options	note 15							225	225
Sale (purchase) of treasury shares	note 15					342			342
Profit (loss) on treasury shares	note 15							(71)	(71)
Dividends paid								(6,330)	(6,330)
Balances at December 31, 2012		**28,948,315**	**1.00**	**28,948**	**2,600**	**(380)**	**(8,840)**	**42,995**	**65,323**

(1) As required in the standard IAS 8, the impacts of the change in the method of recognition of actuarial gains and losses arising from the measurement of defined benefit pensions in the statement of comprehensive income, as explained in the note 2 "Accounting rules and methods" hereafter, are restated in the consolidated statement of changes in equity at December 31, 2011.

The notes on pages 97 through 155 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All amounts in the tables are in thousands of euros, unless otherwise indicated.
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 28, 2013 and will be proposed to the General Meeting of Shareholders for approval on April 30, 2013.

NOTE 1 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 associated services dedicated to large-scale users of fabrics, leather, technical textiles and composite materials. 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 the aeronautical and marine industries and wind power. 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 its 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 91% of its revenues directly in 2012. 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 760 employees dedicated to marketing, sales and services. It employs 210 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 and tax credit for encouraging competitiveness and jobs applicable in France.

NOTE 2 ACCOUNTING RULES AND METHODS

NOTE 2.1 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, 2012 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2011 financial statements, with the exception of the point presented below concerning recognition of defined benefit pension liabilities. They have been prepared under the responsibility of the Board of Directors that review them at its meeting of February 28, 2013 and audited by the Statutory Auditors.

The standards and interpretations adopted by the European Union as of January 1, 2012 had no impact on the Group's financial statements, ie:

– Amendment to IFRS 7 Disclosures – Transfer of financial assets.

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, 2012, in particular:

– Amendment to IAS 19 – Employee benefits: application is mandatory for fiscal years started January 1, 2013. The only expected impact of application of this amendment concerns accounting for past service costs. At present these are amortized over the expected duration of the obligation. They will henceforward be recognized in full in the income statement with effect from January 1, 2013. Retrospective application of this amendment will lead the Group to restate prior published periods, and to show a reduction of €479,000 in 2012 restated consolidated shareholders' equity, at the date of publication of its 2013 financial statements.

Change of Accounting Method—Recognition of Actuarial Gains and Losses on Benefit Pension Liabilities in the Statement of Comprehensive Income

The Group has decided to modify the method used to account for actuarial gains and losses on defined benefit pension plans, under the current IAS 19—Employee Benefits.

Until December 31, 2011, actuarial gains and losses were recognized in full in the consolidated income statement. With effect from January 1, 2012, the Group has decided to recognize all actuarial gains and losses in the consolidated statement of comprehensive income. This change of accounting method was decided on preparatory to application of the revised IAS 19 standard in 2013, under which this option to recognize actuarial gains and losses in equity will become compulsory. The Group considers that this change of method will make the consolidated financial statements more relevant, thereby eliminating the impact of the volatility of actuarial assumptions on the computation of defined benefit pension liabilities in the consolidated income statement. Consistent with IAS 8—Accounting policies, changes in accounting estimates and errors, this change of method has been applied retroactively and the financial statements for 2011 have therefore been restated as follows:

CONSOLIDATED INCOME STATEMENT

Twelve months ended December 31	2011 published	2011 restated
Revenues	**205,923**	**205,923**
Cost of goods sold	(61,613)	(61,613)
Gross profit	**144,310**	**144,310**
Research and development	(11,463)	(11,463)
Selling, general and administrative expenses	(103,925)	(103,544)
Income (loss) from operations	**28,922**	**29,303**
Income (loss) before tax	**27,209**	**27,590**
Income tax	(8,012)	(8,134)
Net income (loss)	**19,197**	**19,456**

STATEMENT OF COMPREHENSIVE INCOME

Twelve months ended December 31	2011 published	2011 restated
Net income (loss)	**19,197**	**19,456**
Currency translation adjustment	61	61
Actuarial gains (losses) on defined benefit pension liabilities	–	(381)
Effective portion of the change in fair value of interest-rate swaps	837	837
Tax effect on the comprehensive income items	(284)	(162)
Comprehensive income (loss)	**19,811**	**19,811**

Total actuarial losses on pension liabilities for 2011, amounting to €381,000 and recognized in the published 2011 financial statements in "Selling, General and Administrative Expenses", are shown after restatement on a specific new line titled "Actuarial gains (losses) on defined benefit pension liabilities" in the consolidated statement of comprehensive income. The corresponding tax charge of €122,000, recognized in "Income tax" in the published 2011 financial statements, has been reclassified in "Tax effect on the comprehensive income items" in the statement of comprehensive income. In light of these items, this restatement has increased net income by €259,000, comprehensive income and consolidated equity remaining unchanged at December 31, 2011.

NOTE 2.2 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 note 3 "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.

NOTE 2.3 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.

NOTE 2.4 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.

NOTE 2.5 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.

NOTE 2.6 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.

NOTE 2.7 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.

NOTE 2.8 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.

NOTE 2.9 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.

NOTE 2.10 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.

NOTE 2.11 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 cash (as shown in note 18.1) is defined as the amount of "Cash and cash equivalents" less financial borrowings (as shown in note 18.3) when this difference is positive. When this difference is negative, the result corresponds to a net financial debt.
Cash equivalents are recognized at their fair value; changes in fair value are recognized in the income statement.

NOTE 2.12 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 18.3).
The liquidity of Lectra's shares on the stock market is ensured by means of a Liquidity Agreement with Exane BNP Paribas since May 21, 2012. Previously, the Liquidity Agreement was managed by SG Securities (Société Générale Group) (see note 15.2).
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.

NOTE 2.13 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.

NOTE 2.14 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.

NOTE 2.15 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 other comprehensive income, in application of one of the options afforded by IAS19 — Employee Benefits.

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.

NOTE 2.16 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.

NOTE 2.17 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.

NOTE 2.18 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.

NOTE 2.19 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".

NOTE 2.20 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.

NOTE 2.21 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 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.
The research tax credit is treated as a subsidy in the Group financial statements, and is discounted in light of the probability of future offsetting against income tax and of reimbursement of the unused portion after four years (see note 14), if it couldn't be offset previoulsy.

NOTE 2.22 INCOME FROM OPERATIONS BEFORE NON-RECURRING ITEMS

Where applicable, 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 and infrequent. There are very few of these and their amounts are significant.

When the Group identifies non-recurring items, it 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.

NOTE 2.23 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.

NOTE 2.24 OPERATING SEGMENTS

Operating segment reporting is based directly on the company's performance tracking and review systems. The operating segments disclosed in note 35 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 customers. 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 and information systems. 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.

NOTE 2.25 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 6) and deferred taxation (see note 11.3).

NOTE 2.26 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 purchases and revenues 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)	2012	2011
U.S. dollar		
Annual average rate	1.29	1.39
Closing rate	1.32	1.29
Japanese yen		
Annual average rate	103	111
Closing rate	114	100
British pound		
Annual average rate	0.81	0.87
Closing rate	0.82	0.84
Chinese yuan		
Annual average rate	8.11	9.00
Closing rate	8.22	8.16

NOTE 2.27 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.

Scope of Consolidation

At December 31, 2012, the Group's scope of consolidation comprised Lectra SA together with 27 fully-consolidated companies.

Lectra Maroc SARL, previously not consolidated, was consolidated for the first time on January 1, 2012, with no material impact on the Group financial statements at December 31, 2012.

There were no other changes in the scope of consolidation in 2012.

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.

Company	City	Country	% of ownership and control 2012	% of ownership and control 2011	Consolidation method[1] 2012	Consolidation method[1] 2011
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	Munich	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 Maroc Sarl	Casablanca	Morocco	99.4	99.4	FC	NC
Lectra Systèmes SA de CV	Mexico	Mexico	100.0	100.0	FC	FC
Lectra Portugal Lda	Porto	Portugal	99.9	99.9	FC	FC
Lectra UK Ltd	Greengates	United Kingdom	99.9	99.9	FC	FC
Lectra Russia OOO	Moscow	Russia	100.0	100.0	FC	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 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.

NOTE 3 RISK MANAGEMENT POLICY

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

NOTE 3.1 SPECIFIC FOREIGN EXCHANGE RISKS–DERIVATIVE FINANCIAL INSTRUMENTS

Exchange rate fluctuations impact the Group at two levels:

Competitive Impact

Lectra 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.

Currency translation Impact

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

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.

NOTE 3.2 INTEREST RATE RISK

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

This is because the Group has sharply reduced its financial debt in recent years, from €66.5 million at December 31, 2008 to €6.7 million at December 31, 2012.

Sensitivity to interest rate fluctuations is discussed in note 18.5.

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.

NOTE 3.3 CUSTOMER DEPENDENCY RISKS

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 2012 as was the case in previous years, and the company's 10 largest customers represented less than 20% revenues combined, and the top 20 customers less than 25%.

NOTE 3.4 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 procedures, which include preventively analyzing its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears.

NOTE 3.5 LIQUIDITY RISKS

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 18.1). 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. Cash and cash equivalents is held exclusively in interest-bearing sight accounts and represents a comfortable and sufficient liquidity reserve for the Group.
Thanks to its structurally negative or near-zero working capital requirement, any cash flows generated by the Group help to bolster its liquidity.

NOTE 4 DIVIDEND

The Board of Directors has proposed to the Shareholders' Meeting on April 30, 2013 to declare a dividend of €0.22 per share in 2013 in respect of fiscal 2012.
The company declared a dividend of €0.22 per share in 2012, in respect of fiscal 2011.

NEW TAX ON DIVIDENDS

The second supplementary finance act for 2012, dated August 16, 2012, has instituted a tax on dividends in the form of an additional contribution to income tax equal to 3% of the amounts distributed by companies subject to income tax in France. It applies to all dividends paid with effect from August 17, 2012 and must be recognized at the time of approval of the dividends by the Board of Directors.
The corresponding amount of the additional tax not yet recognized and arising in connection with the proposed dividend in respect of fiscal year 2012 as formulated by the Board of Directors at the balance sheet closing date, to be submitted to the Ordinary Shareholders' Meeting of April 30, 2013, is €191,000 (computed on the basis of 28,952,876 shares that would have been eligible for a dividend out of the 29,010,166 making up the share capital at February 28, 2013, after deducting the 57,290 treasury shares at that date, treasury shares being ineligibe to receive a dividend).

NOTE 5 POST-CLOSING EVENTS

In a decision issued on January 28, 2013, the Madrid Court of Appeal upheld the judgment of the Madrid Court of First Instance of June 27, 2011, recognizing the validity and enforceability in Spain of the arbitral award rendered against Induyco in October 2009 by an International Arbitral Tribunal seated in London (see note 23.2).
No other significant event has occurred since December 31, 2012.

NOTE 6 GOODWILL

No acquisition was made in fiscal years 2012 and 2011.
All past acquisitions have been paid for in full, and no further earn-out is due on these transactions.
In 2012 as in 2011, the only changes concerned currency translation adjustment.

	2012	2011
Book value at January 1	**31,309**	**30,999**
Goodwill adjustment	–	–
Exchange rate differences	(177)	310
Book value at December 31	**31,132**	**31,309**

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 35 correspond to groups of these CGUs.
Goodwill shown in the statement of financial position was subjected to impairment testing in December 2012. The projections used are based on the 2013-2015 plan for each CGU based on actual 2012 cash flows and on forecast trends in each market concerned and, beyond 2015, on a projection to infinity using a 2% growth rate assumption.
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 2013-2015 plan.
– The cost of debt is determined on the basis of average market conditions for the fourth quarter of 2012 (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, 2012, goodwill and discount rates used in impairment testing were allocated as follows among the different CGUs:

	2012		2011	
	Discount rate	Goodwill	Discount rate	Goodwill
Italy	8.6%	12,004	9.4%	12,004
France	7.4%	2,324	8.5%	2,324
Germany	7.3%	4,631	8.0%	4,631
Northern Europe	7.3%	1,590	8.5%	1,590
United Kingdom	7.3%	1,317	8.4%	1,287
Spain	8.7%	702	9.4%	702
Portugal	9.1%	220	9.4%	220
Total Europe		**22,788**		**22,758**
North America	7.2%	6,163	7.9%	6,284
South America	12.0%	409	13.3%	417
Total Americas		**6,572**		**6,701**
Japan	5.7%	497	6.4%	564
Greater China	8.7%	583	9.0%	594
Other Asian countries	8.3%	324	9.0%	324
Total Asia-Pacific		**1,404**		**1,482**
Other countries	**8.0%**	**368**	**8.5%**	**368**
Total		**31,132**		**31,309**

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 one percentage point rise in the discount rate;
– a one percentage point decline relative to the revenue growth assumptions for each CGU used in framing the 2013-2015 plan;
– a one percentage point decline in the gross profit margin assumptions used in framing the 2013-2015 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.

NOTE 7 OTHER INTANGIBLE ASSETS

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**

2012	Management information software	Patents and trademarks	Other	Total
Gross value at January 1, 2012	**22,511**	**2,302**	**6,180**	**30,993**
External purchases	632	246	40	918
Internal developments	373	–	–	373
Write-offs and disposals	(3,730)	(453)	(5,632)	(9,815)
Exchange rate differences	(31)	(0)	(5)	(36)
Gross value at December 31, 2012	**19,755**	**2,095**	**583**	**22,434**
Amortization at December 31, 2012	**(15,916)**	**(1,783)**	**(462)**	**(18,160)**
Net value at December 31, 2012	**3,839**	**312**	**121**	**4,273**

Changes in amortization:

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)**

2012	Management information software	Patents and trademarks	Other	Total
Amortization at January 1, 2012	**(18,113)**	**(2,092)**	**(6,046)**	**(26,251)**
Amortization charges	(1,528)	(143)	(27)	(1,698)
Amortization write-backs	3,703	453	5,610	9,766
Exchange rate differences	22	–	1	24
Amortization at December 31, 2012	**(15,916)**	**(1,783)**	**(462)**	**(18,160)**

The Group reviewed its intangible assets during the course of 2012, which resulted in the write-off of certain items of management software and other intangible assets, now obsolete and almost fully amortized. The gross impact of these write-offs is €3,730,000 for management information software and €5,632,000 for other intangible assets.

MANAGEMENT INFORMATION SOFTWARE

As part of an ongoing process of upgrading and reinforcing its information systems, in 2011 and 2012 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

At December 31, 2012, nearly all of the other intangible assets were fully amortized numerous years ago. The net residual value of these intangible assets was €121,000.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

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

2012	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2012	10,310	14,571	23,573	48,454
Additions	353	1,489	2,001	3,843
Write-offs and disposals	–	(9)	(695)	(704)
Exchange rate differences	–	(42)	(140)	(182)
Gross value at December 31, 2012	10,663	16,009	24,738	51,411
Accumulated depreciation at December 31, 2012	(6,766)	(11,072)	(20,615)	(38,452)
Net value at December 31, 2012	3,897	4,938	4,124	12,959

Changes in depreciation:

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)**

2012	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2012	**(6,682)**	**(10,199)**	**(19,984)**	**(36,865)**
Additional depreciation	(84)	(905)	(1,334)	(2,323)
Write-offs and disposals	–	3	606	609
Exchange rate differences	–	29	98	127
Accumulated depreciation at December 31, 2012	**(6,766)**	**(11,072)**	**(20,615)**	**(38,452)**

LAND AND BUILDINGS

"Land and buildings" pertain solely to the Group's industrial facilities in Bordeaux–Cestas (France), amounting to a gross value of €10,663,000, net of investment grants received and to a net value of €3,897,000 at December 31, 2012. The facility covers an area of 11.4 hectares (28.5 acres) and the buildings represent 29,400 sq. meters (317,750 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 purchased under finance leases were carried at cost in the consolidated financial statements: they are valued at €3,982,000 for the buildings, depreciated in full, and €473,000 for the land. No acquisitions of new equipment had been made using finance leases since 2002.
The assets purchased outright by the company represent a gross value of €6,207,000, of which €2,692,000 has been depreciated at December 31, 2012. Fixed assets remaining to be depreciated (net amount €2,850,000 excluding the value of land, which is non-depreciable) mainly refer to the plant extension carried out in 2000, to construction of the International Advanced Technology & Conference Center at the Bordeaux-Cestas industrial site in 2007 and its extension made in 2011 and in 2012.
Investments have been made in 2011 (€832,000) and in 2012 (€353,000) at the industrial site in order to strengthen the Group's industrial capacity and expand its showrooms. It mainly concerns the extension of the International Advanced Technology & Conference Center.

FIXTURES AND FITTINGS

Fixtures and fittings refer to the Bordeaux-Cestas industrial facility and the fittings installed in all Group subsidiaries for a gross amount of €16,009,000 and for a net amount of €4,938,000 at December 31, 2012.
Investments have been made in fixtures and fittings in 2011 (€937,000) and 2012 (€1,489,000) throughout the Group. These mainly concerned the expansion of the International Advanced Technology & Conference Center which represent €644,000 in 2011 and €1,091,000 in 2012.

EQUIPEMENT AND OTHER

Other fixed assets purchased in 2012 and 2011 mainly concerned computer equipment and manufacturing molds and tools for the Bordeaux–Cestas industrial facility.

NOTE 9 NON-CURRENT FINANCIAL ASSETS

2011	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2011	2,781	1,068	3,849
Additions	–	1,134	1,134
Disposals	–	(1,200)	(1,200)
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

2012	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2012	2,781	1,040	3,821
Additions	–	866	866
Disposals	(220)	(898)	(1,117)
Exchange rate differences	(3)	(37)	(40)
Gross value at December 31, 2012	2,559	972	3,530
Impairment provision at December 31, 2012	(1,608)	(51)	(1,659)
Net value at December 31, 2012	951	921	1,871

INVESTMENTS IN SUBSIDIARIES

"Investments in subsidiaries" exclusively concern companies not included in the scope of consolidation. The decline recorded in 2012 stems from the first-time consolidation of Lectra Maroc, a wholly-owned subsidiary of Lectra SA.
At December 31, 2012, four sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. Most of these subsidiaries' sales activity is billed directly by the parent company, Lectra SA (see note 10).

OTHER NON-CURRENT FINANCIAL ASSETS

"Other non-current financial assets" at December 31, 2012 primarily consist of deposits and guarantees.
The flows for the period concern cash exchanged between the company and SG Securities (until May 20, 2012) and then Exane BNP Paribas (as from May 21, 2012), under the Liquidity Agreement managed by the latter. The company had placed the sum of €148,000 at the disposal of Exane BNP Paribas, at December 31, 2012.

NOTE 10 RELATED-PARTY TRANSACTIONS

The amounts below refer to fiscal year 2012 or December 31, 2012, as applicable.

Type of transaction	Items concerned in consolidated financial statements	Non-consolidated subsidiaries concerned	Amounts
Receivables[1]	Trade accounts receivable	Lectra Chile SA (Chile)	249
		Lectra Systemes Inc. (Philippines)	222
		Lectra Israel Ltd (Israel)	603
		Other non-consolidated subsidiaries	4
Payables[1]	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	(707)
Sales[2]	Revenues	Lectra Chile SA (Chile)	94
		Lectra Israel Ltd (Israel)	18
		Lectra Systemes Inc. (Philippines)	40
Commissions[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(210)
		Lectra Systemes Inc. (Philippines)	(5)
Personnel invoiced[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(595)
Financial interest[2]	Interest income	Lectra Israel Ltd (Israel)	4

(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.

All of the parties concerned are non-consolidated subsidiaries acting either as agents or distributors of the company's products in their respective countries. The transactions in question mainly concern purchases to 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 when they act as agents, as is generally the case with new systems sales.
Transactions with Board of Directors are limited to aspects of compensation solely, details of which are provided in notes 28.6 and 28.7.

NOTE 11 TAXES

NOTE 11.1 TAX CHARGE

	2012	2011
Current tax income (expense)	(3,651)	(4,760)
Deferred tax income (expense)	(1,214)	(3,374)
Net tax income (expense)	**(4,865)**	**(8,134)**

The research tax credit (*crédit d'impôt recherche*) applicable in France is deducted from R&D expenses (see note 26). It amounts to €5,797,000 in 2012 (€5,474,000 in 2011).
Income tax payable amounts to €1,545,000 at December 31, 2012 (€1,776,000 at December 31, 2011).

NOTE 11.2 EFFECTIVE TAX RATE

	2012	2011
Expense at standard rate of corporate income tax in France[1]	(6,183)	(9,347)
Effect of reduction in unrecognized deferred tax assets	324	655
Effect of other countries' different tax rates	285	675
Effect of non taxable income and non deductible expenses[2]	1,277	721
Effect of CVAE[3]	(648)	(700)
Others	79	(137)
Net tax expense	**(4,865)**	**(8,134)**
Effective tax rate	26.29%	29.48%

(1) The standard rate of corporate income tax in France amounts to 33.40% in 2012 and to 33.88% in 2011.
(2) This mainly corresponds to income or expenses for the year that will never be subject to taxation or tax deductible, including in particular the research tax credit presented in income from operations, and the neutralization for tax purposes of certain consolidation entries.
(3) 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 11.3 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 forecasts of activity levels being deemed insufficiently reliable, 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, 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, 2012, unrecognized deferred tax assets totaled €6,521,000, compared with €7,066,000 at December 31, 2011. The Spanish and U.S. 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 18 and 20 years respectively, pushing back the most distant deadlines for utilization to 2024 for the Spanish subsidiary and to 2029 for the U.S. subsidiary.
The share of deferred taxes directly recognized in retained earnings for the year works out to a positive €465,000 (a negative €162,000 at December 31, 2011). It corresponds to the tax effect on the actuarial gains and losses arising in connection with pension liabilities for €564,000 (€122,000 in 2011) and to the write-off of the tax effect on the mark-to-market of interest-rate swaps on the medium-term bank loan, which matured in the course of 2012 for €98,000 (see note 18.4). At December 31, 2011, the tax effect on the mark-to-market of interest-rate swaps amounted to a negative €284,000.
Deferred taxes are listed below according to the type of timing difference:

	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	(175)	122	42	1,514
Total	**12,938**	**(3,374)**	**(162)**	**141**	**9,543**

	2011	P&L impact	Equity impact	Translation adjustments	2012
Tax losses carry-forward	5,387	(1,416)	–	(15)	3,955
Depreciation/amortization of tangible and intangible assets	500	(208)	–	8	299
Impairment of accounts receivable	544	113	–	(3)	654
Write-down of inventories	1,500	(269)	–	(72)	1,159
Financial instruments	98	–	(98)	–	–
Other timing differences	1,514	567	564	(83)	2,562
Total	**9,543**	**(1,214)**	**465**	**(165)**	**8,631**

NOTE 11.4 SCHEDULE OF ACTIVATED TAX LOSSES CARRY-FORWARDS

	Expiration date			
	Until 2013	Between 2014 and 2018	Beyond 2018	Total
Deferred tax assets on tax losses[1]	2	191	3,763	3,955

(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 12 INVENTORIES

	2012	2011
Raw materials	23,422	22,115
Finished goods and works-in-progress[1]	6,866	7,336
Inventories, gross value	**30,287**	**29,451**
Raw materials	(5,447)	(6,130)
Finished goods and works-in-progress[1]	(2,084)	(2,209)
Write-downs	**(7,531)**	**(8,339)**
Raw materials	17,974	15,985
Finished goods and works-in-progress[1]	4,782	5,127
Inventories, net value	**22,756**	**21,112**

(1) Including demonstration and second-hand equipment.

€1,296,000 of inventory fully written down was scrapped in the course of 2012 (€895,000 in 2011), thereby diminishing the gross value and write-downs by the same amount.
The increase in Group inventories in 2012 mainly results from the launch of the new *Versalis* and *Vector* cutter generations.
Inventory write-downs charged for the year amounted to €1,749,000 (€2,370,000 in 2011). Reversals of previous write-downs relating to sales transactions amounted to €1,249,000 (€2,485,000 in 2011), booked against the charges for the period.

NOTE 13 TRADE ACCOUNTS RECEIVABLE

	2012	2011
Trade accounts receivable excluding deferred revenues	4,358	9,689
Deferred recurring software evolution and services contracts	38,992	33,546
Other deferred equipment and services revenues	2,919	2,176
VAT on deferred recurring contracts and on deferred revenues	4,610	3,929
Trade accounts receivable, gross value	**50,879**	**49,340**
Provision for impairment	**(5,730)**	**(4,807)**
Trade accounts receivable, net value	**45,149**	**44,533**

Trade receivables at December 31, 2012 include €41,911,000, excluding taxes, on recurring contracts, other services and equipment billed in advance for 2013 (compared with €35,722,000, excluding taxes, at December 31, 2011 in respect of 2012). An identical amount is recorded in "Deferred revenues" (see note 20). Payments on recuring contracts generally become due on the first day of the period covered by them. The Group endeavors to bill as many of them as possible in advance, in order to optimize collection. The increase in the amount shown under "Deferred recurring software evolution and services contracts" stems from the billing in December 2012 of a larger number of contracts starting on January 1, 2013 by comparison with the number of contracts billed in December 2011 and starting on January 1, 2012.

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:

	2012	2011
Provisions at January 1	**(4,807)**	**(4,496)**
Additional provision	(2,817)	(1,708)
Write-back of provisions no longer required	10	291
Write-back of provisions on receivables paid	743	412
Write-back of provisions on irrecoverable receivables written-off	1,101	678
Exchange rate differences	39	16
Provisions at December 31	**(5,730)**	**(4,807)**

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:

	2012	2011
Receivables not yet due	38,864	39,920
Receivables overdue, of which due for:	12,015	9,420
– less than 1 month	2,882	2,300
– 1-3 months	2,444	1,385
– more than 3 months	6,689	5,735
Total	**50,879**	**49,340**

Almost all of the provisions of accounts receivable and related accounts amounting to €5,730,000 at December 31, 2012 concerns accounts more than 3 months overdue.

NOTE 14 OTHER CURRENT ASSETS

	2012	2011
Research tax credit	15,731	10,139
Discount on research tax credit receivable	(126)	–
Other tax receivables	1,512	1,954
Income tax down-payments	637	716
Staff and social security receivables	266	270
Other current assets	4,087	4,108
Total other current assets	**22,108**	**17,187**

RESEARCH TAX CREDIT

At December 31, 2012, the research tax credit receivable amounted to €15,731,000. This comprised the research tax credit recognized in 2012 (€5,715,000), in 2011 (€6,161,000) and the balance outstanding (€3,855,000) of the research tax credit recognized in 2010 after deduction from income tax due by Lectra SA in respect of 2012 (€624,000) and 2011 (€1,387,000). Under the 2013 French finance act of December 20, 2012 (effective 2012), the deductibility of tax loss carryforwards from taxable income is capped at €1,000,000, to which is added 50% of the fraction of taxable income exceeding that limit.

It should be noted that, when the research tax credit recognized in the year cannot be charged against income tax, it is treated as a receivable on the French tax administration (*Trésor public*). If unused in the ensuing three years, it is repaid in the course of the fourth year.

Consequently, the receivable will be charged to income tax payable in future year-ends, and the portion that could not be used, will be repaid by the French tax administration.

In light of company estimates of research tax credits and income tax for the next three years, the company does not expect to make any payment in respect of income tax (which will be deducted in full from the research tax credit receivable), and also expects to receive reimbursement of the balance outstanding of research tax credits not deducted in 2014 (in respect of the 2010 tax credit), 2015 (in respect of the 2011 tax credit), and 2016 (in respect of the 2012 tax credit). This situation will last for as long as the amount of the annual research tax credit exceeds the amount of income tax payable.

If the income tax charge were to rise above the figure for the research tax credit for the year, the company would continue not to pay the income tax charge until deduction of the research tax credit receivable in full. Thereafter it would offset the research tax credit against the income tax charge for the same period in full, and would be required to pay the residual amount.

OTHER TAX RECEIVABLES

Other tax receivables at December 31, 2012 comprised the recoverable value-added tax for parent company and its subsidiaries.

OTHER CURRENT ASSETS

Other current assets notably comprise prepaid rental expenses, insurance premiums and equipment rental charges.

NOTE 15 SHAREHOLDERS' EQUITY

NOTE 15.1 SHARE CAPITAL AND SHARE PREMIUM

In accordance with the first resolution of the Extraordinary Shareholders' Meeting of April 27, 2012, the par value of the shares making up the company's share capital has been raised from €0.97 to €1.00. Consequently, the share capital at December 31, 2012 totaled €28,948,315, divided into 28,948,315 shares with a par value of €1.00. It was €28,036,501.70, divided into 28,903,610 shares with a par value of €0.97, at December 31, 2011.

Share capital has increased by 44,705 shares since January 1, 2012, resulting from the exercise of stock options, an increase of €156,000 of share capital together with total share premium (issuance of 404,596 shares in 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.

The tables below provide details of changes in the number of shares, the capital and additional paid-in capital and merger premiums in fiscal 2012 and 2011.

Note 15.1.1 Share Capital

	2012		2011	
	Number of shares	Share capital (in euros)	Number of shares	Share capital (in euros)
Share capital at January 1	**28,903,610**	**28,036,502**	**28,499,014**	**27,644,044**
Stock options exercised	44,705	44,253	404,596	392,458
Increase of par value per share	–	867,560	–	–
Share capital at December 31	**28,948,315**	**28,948,315**	**28,903,610**	**28,036,502**

The shares comprising the capital are fully paid up.

Note 15.1.2 Share Premium

	2012	2011
Share premium at January 1	**2,487**	**1,039**
Stock options exercised	112	1,449
Share premium at December 31	**2,600**	**2,487**

NOTE 15.2 TREASURY SHARES

The General Meeting of Shareholders on April 27, 2012 renewed the existing share buyback program authorizing 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 30, 2012 on the Lectra website (www.lectra.com).
On April 11, 2012, SG Securities (Société Générale) notified Lectra of the termination of its Liquidity Agreement, signed with Lectra on September 15, 2005. As of May 21, 2012, Lectra has entrusted Exane BNP Paribas as liquidity provider, within the frame of a Liquidity Agreement signed in accordance with the Charter of Ethics of the *Association Française des Marchés Financiers* (AMAFI) recognized by the *Autorité des Marchés Financiers* (AMF).
The resources allocated to the previous contract have been allocated to the liquidity account under this new Liquidity Agreement (147,730 Lectra shares and €14,000 in cash, representing an equivalent value of around €635,000). Lectra may increase the resources allocated, if necessary, by contributing up to €1,000,000 (with a maximum corresponding to the market value of 150,000 Lectra shares).
At December 31, 2012, the company held 84,284 shares, ie 0.3% of its capital within the framework of the Liquidity Agreement (compared with 0.5% at December 31, 2011) for a total of €380,000 (compared with €722,000 at December 31, 2011) representing an average purchase price of €4.51 per share, which has been deducted from shareholders' equity.
The company holds no treasury shares outside the framework of Liquidity Agreement.

	2012			2011		
	Number of shares	Amount	Average price per share (in euros)	Number of shares	Amount	Average price per share (in euros)
Treasury shares at January 1 (historical cost)	133,854	(722)	5.39	143,740	(386)	2.69
Liquidity agreement						
Purchases (at purchase price)	118,644	(537)	4.53	185,256	(1,017)	5.49
Sales (at sale price)	(168,214)	772	4.59	(195,142)	1,049	5.37
Net cash flow[1]	**(49,570)**	**235**		**(9,886)**	**31**	
Gains (losses) on disposals		(106)			367	
Treasury shares at December 31 (historical cost)	**84,284**	**(380)**	**4.51**	**133,854**	**(722)**	**5.39**

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

NOTE 15.3 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, 2012, 28,536,885 shares qualified for normal voting rights, and only 411,430 (ie 1.4% 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, 2012, the total number of voting rights attached to the company's shares was 29,359,745. This number is reduced to 29,275,461 due to the fact that no voting rights are attached to treasury shares.

NOTE 15.4 STATUTORY THRESHOLDS

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

NOTE 15.5 STOCK OPTION PLANS

At December 31, 2012, 166 employees were the beneficiaries of 3,007,283 options and 14 former employees still held 31,942 options; altogether, 180 persons were beneficiaries of options (respectively 157, 20 and 177 at December 31, 2011).
At the same date, the maximum number of shares comprising the share capital, including potential new shares liable to be issued via the exercise of existing rights qualifying for subscription to new shares was 31,987,540, made up as follows:
- share capital: 28,948,315 shares;
- stock options: 3,039,225 options.

Each option entitles the holder to purchase one new share with a par value of €1.00 at the exercise price set by the Board of Directors on the grant date (adjusted for the effect of the public stock buyback tender offer carried out in May 2007, if applicable). If all of the options outstanding were exercised—regardless of whether the beneficiary's options are vested or not yet vested—and regardless of their exercise price relative to their market price at December 31, 2012, the share capital would increase by €3,039,225, together with a total issue premium of €11,639,751. None of the parent company's subsidiary has set up a stock option or share purchase plan.
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, ie around June 10. Exceptionally in 2012, in light of uncertainty surrounding the new tax treatment and social charges announced by the French Government but not yet published, the granting of stock options took place on September 4 (see note 15.5.6).
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 2012 and 2011 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

	2012	2011
Exercise price (in euros)	6.25	6.25
Share price on the date of allocation (in euros)	4.61	6.10
Risk-free interest rate	4.77%	2.45%
Dividend payout rate	0.67%	2.95%
Volatility [1]	25.00%	25.00%
Duration of options	4 years	4 years
Fair value of one option (in euros)	0.22	0.98

(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 September 4, 2012 amounts to €215,000.
An expense of €225,000 is recognized in the 2012 financial statements, including €68,000 in respect of the grants made in 2012, and €157,000 in respect of options granted previously. Charges for the year are recognized under personnel expenses.

Plans in force at December 31, 2012 will impact the years 2013, 2014 and 2015 alone in the estimated amounts of €43,000, €18,000 and €7,000 respectively.
The Group paid a €40,000 employer's contribution based on the fair value of the options granted in 2012, fully expensed in personnel costs for 2012.

note 15.5.1 Stock Options Outstanding: Options Granted, Exercised and Canceled During the Period

	2012		2011	
	Number of stock options	Average exercise price (in euros)	Number of stock options	Average exercise price (in euros)
Stock options outstanding at January 1	**2,881,319**	**4.72**	**2,969,644**	**4.49**
Stock options granted during the year	976,119	6.25	435,727	6.25
Stock options exercised during the year	(44,705)	3.50	(404,596)	4.55
Stock options expired/cancelled during the year	(773,508)	6.30	(119,456)	5.07
Stock options outstanding at December 31	**3,039,225**	**4.83**	**2,881,319**	**4.72**
– of which fully vested	2,308,859	4.55	2,192,863	4.86
– for which exercise rights remain to be acquired	730,366	5.70	688,456	4.29

For plans in force at December 31, 2012, 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. Exceptionally, this rule was waived in 2012: the 722,800 options granted on September 4, 2012 in respect of the 2012 options plan (see note 15.5.6) to 92 beneficiaries in respect of fulfillment of their 2012 performance targets represented a maximum number, reduced to 295,728 at December 31, 2012 (420,672 having lapsed, after closing of the Group consolidated financial statements for 2012, due to non-fulfilment of objectives for 2012, and 6,400 options due to the beneficiaries' departure).

Note 15.5.2 Breakdown of Stock Options Outstanding at December 31, 2012, by Category of Beneficiaries

	2012				
	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	908,824	30%	718,848	189,976
Group management	36	1,280,076	42%	941,013	339,063
Other employees	128	818,383	27%	617,056	201,327
Persons having left the company and still holding unexercised options	14	31,942	1%	31,942	–
Total	**180**	**3,039,225**	**100%**	**2,308,859**	**730,366**

(1) The only 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 15.5.3 Breakdown of Stock Options at December 31, 2012, by Expiration Date and Exercise Price

Grant date	Expiration date	Number of stock options	Exercise price (in euros)
May 23, 2006	May 23, 2014	384,560	5.63
June 8, 2007	June 8, 2015	392,654	6.30
July 27, 2007	July 27, 2015	694	6.30
June 11, 2008	June 11, 2016	65,432	6.30
June 11, 2008	June 11, 2016	263,731	4.10
June 9, 2009	June 9, 2017	35,592	4.10
June 9, 2009	June 9, 2017	482,700	2.50
June 10, 2010	June 10, 2018	439,206	2.50
June 9, 2011	June 9, 2019	426,444	6.25
September 4, 2012	September 4, 2020	548,212	6.25
Total		**3,039,225**	

Among the 31,942 options held by people having left the Group, 19,665 expire in 2013, 9,837 in 2014 and 2,440 in 2015.

Note 15.5.4 Breakdown of Stock Options for Which Exercise Rights Remain to be Acquired After December 31, 2012 by the Beneficiaries

Year of vesting	Number of stock options
2013	350,409
2014	243,048
2015	136,909
Total	**730,366**

Note 15.5.5 Stock Option Plans of Executive Directors at December 31, 2012

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.

Note 15.5.6 Stock Options Granted in 2012

On September 4, 2012, the Board of Directors granted 197,319 options, at an exercise price of €6.25 per share to 82 beneficiaries in respect of the achievement of their annual performance targets set for 2011. These grants result from the Board's undertaking at the time of the granting of the 2011 stock option plan.

Moreover, under the 2012 plan, it granted 778,800 options to 110 beneficiaries at an exercise price of €6.25 per share. Of this total, 722,800 options granted to 92 beneficiaries, conditional on fulfillment of their annual performance targets for 2012, correspond to a maximum number of options dependent upon performance in 2012. The final number of options at December 31, 2012 in the 2012 options plan has been determined, based on the actual percentage achievement of these targets, after closing of the Group's consolidated financial statements for 2012, and reduced to 351,728 options and 106 beneficiaries (420,672 options having lapsed due to non-fulfilment of 2012 objectives, and 6,400 options due to the beneficiaries' departure).

All beneficiaries of the options granted are Group employees. The two corporate executive officers, André Harari and Daniel Harari, have not received any stock options since 2000.

Beneficiaries' rights vest over a period of four years starting January 1, 2012 and depend on the beneficiary's presence in the Group at the end of each annual period (beneficiaries must at all times be connected with the company or an affiliated company via an employment contract or as a corporate officer). Starting with the 2010 option plan, the four-year lockup period applicable to French residents has been extended to all beneficiaries of these plans, whether they are French residents for tax purposes or not.

The options are valid for eight years from their grant date.

Of the 976,119 (maximum) stock options granted in 2012, the 10 Group employees (no executive directors) receiving the largest number of options in 2012 were granted a total of 465,925 (maximum) options.

Of the 548,212 stock options definitively granted in 2012 in light of actual fulfilment of objectives, 274,108 were granted to the 10 Group employees who are not executive corporate officers and to whom the largest number of options were granted in the course of fiscal 2012.

Note 15.5.7 Stock Options Exercised in 2012

44,705 options were exercised in 2012. 773,508 options lapsed (including 427,072 options granted in 2012): 74,133 options due to their beneficiaries' departure, 278,703 due to the maturing of several plans, and 420,672 options due to non-fulfilment of 2012 objectives.

	2012	
Grant date	Number of stock options exercised	Exercise price (in euros)
June 11, 2008	26,963	4.10
June 9, 2009	942	4.10
June 9, 2009	16,200	2.50
June 10, 2010	600	2.50
Total	**44,705**	**3.50**

NOTE 16 CURRENCY TRANSLATION ADJUSTMENT

Analysis of changes recorded in 2012 and 2011:

	2012	2011
Cumulative translation adjustment at January 1	**(8,816)**	**(8,877)**
Differences on translation of subsidiaries' income statements	(50)	2
Adjustment required to maintain subsidiaries' retained earning at historical exchange rate	159	70
Other changes	(133)	(11)
Cumulative translation adjustment at December 31	**(8,840)**	**(8,816)**

NOTE 17 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. The two executive directors are not beneficiaries of any defined benefit retirement plans. These obligations apply mainly in France, in Italy and Japan, as detailed below:

2011	France	Italy	Japan	Taiwan	Others[1]	Total
Retirement benefits at January 1, 2011	**1,486**	**1,710**	**839**	**(82)**	**89**	**4,042**
Charges of the year[2]	87	72	89	28	162	438
Benefits paid	–	(400)	(51)	(25)	–	(476)
Actuarial losses (gains)[2]	306	66	5	11	(7)	381
Exchange rate differences	–	–	75	(2)	(16)	57
Retirement benefits at December 31, 2011[3]	**1,879**	**1,448**	**957**	**(70)**	**228**	**4,442**

(1) Lectra Mexico's retirement benefit obligations was recognized in the Group financial statements for the first time in 2011, and amount to €102,000 at December 31, 2011.
(2) Following a change in the method of accounting for actuarial gains and losses (see note 2 "accounting rules and methods"), the charge for 2011 has been restated for actuarial losses and gains, which are now recognized in other comprehensive income.
(3) The figure of €4,512,000 shown in the liabilities of the statement of financial position at December 31, 2011 does not include Taiwan retirement benefit obligations, which are recognized under assets in the statement of financial position for €70,000.

2012	France	Italy	Japan	Taiwan	Others	Total
Retirement benefits at January 1, 2012	**1,879**	**1,448**	**957**	**(70)**	**228**	**4,442**
Charges of the year	317	60	107	(134)	68	418
Benefits paid	(31)	(214)	(23)	(27)	(158)	(453)
Actuarial losses (gains)	1,610	118	(42)	352	58	2,096
Exchange rate differences	–	–	(115)	(3)	8	(110)
Retirement benefits at December 31, 2012	**3,775**	**1,412**	**884**	**118**	**204**	**6,393**

Breakdown of net annual charge:

2011	France	Italy	Japan	Taiwan	Others	Total
Service cost provided in the year	69	–	73	26	150	318
Interest cost	18	72	16	12	12	130
Expected return on plan assets	–	–	–	(10)	–	(10)
Charge (income) of the year[1]	**87**	**72**	**89**	**28**	**162**	**438**

(1) Following a change of method of accounting for actuarial losses and gains (see note 2 "accounting rules and methods"), the 2011 charge has been restated for actuarial losses and gains, which are now recognized under other comprehensive income.

2012	France	Italy	Japan	Taiwan	Others	Total
Service cost provided in the year	69	–	90	26	55	240
Past service cost	160	–	–	(163)	–	(3)
Interest cost	88	60	17	3	13	181
Charge (income) of the year	**317**	**60**	**107**	**(134)**	**68**	**418**

Main actuarial assumptions used:

	France	Italy	Japan	Taiwan
Discount rate	3.25%	3.25%	1.70%	1.50%
Average rate of salary increase, including inflation	2.30%	3.00%	2.05%	1.50%
Personnel turnover rate[1]	1.78% / 7.22%	5.00%	3.50%	8.70%

(1) Calculated via a table based on age group. The personnel turnover rate for France is 1.78% for non-managerial grade personnel, and 7.22% for managerial grade personnel.

NOTE 18 BORROWINGS AND FINANCIAL DEBTS

NOTE 18.1 NET CASH

	2012	2011
Cash	20,966	20,320
Cash equivalents	–	6,000
Total borrowings	(6,726)	(17,689)
Net cash	**14,240**	**8,631**

The major part of cash is invested in interest-bearing sights accounts.
In 2011, cash equivalents consisted of a €6,000,000 negotiable certificate of deposit, which could be exercised contractually each month without penalty.

NOTE 18.2 BREAKDOWN OF BORROWINGS BY CURRENCY

At December 31, 2012, 100% of the company's financial debt was euro-denominated, as at December 31, 2011.

NOTE 18.3 SCHEDULE OF BORROWINGS BY CATEGORY AND BY MATURITY

At December 31, 2012, the repayment schedule is as follows:

	Short term	Long term		
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Medium-term bank loan	5,360	–	–	5,360
Interest-free repayable advances[1]	474	892	–	1,366
Total	**5,834**	**892**	**–**	**6,726**

(1) The repayable advances correspond to public grants to finance R&D programs.

Note 18.3.1 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.

In 2011, it made a repayment of €3,840,000 on June 30, ahead of the scheduled repayment date, pursuant to the *excess* cash flow clause in the loan contract (there was no repayment under this clause in 2012) and a voluntary repayment of €10,000,000 on December 31 (in addition to the contractual repayments which were reduced to €560,000 due to the repayment ahead of schedule for €10,000,000 made on December 31, 2010).

The repayment of €10,000,000 made on December 31, 2011 ahead of the scheduled repayment date, replaced the contractual half-yearly installments due in respect of 2012, which were consequently reduced to €560,000 and effectively repaid at December 31, 2012.

On December 31, 2012, the company made another voluntary repayment of €10,000,000 ahead of schedule, which similarly substitutes for the contractual half-year repayments due in 2013, consequently reduced to €5,360,000.

Repayments made are summarized in the table below:

	2012	2011
Balance of bank loan outstanding at January 1	**15,920**	**30,320**
Contractual repayments	(560)	(560)
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	**5,360**	**15,920**

The balance outstanding on the loan, ie €5,360,000, is repayable on December 31, 2013.

It carried interest at the 3-month Euribor rate plus a margin of 0.95% per year.

In 2012, the total effective interest fixed rate after including the cost of the hedging instruments and amounts hedged was 3.91%.

In the theoretical event that the 3-month Euribor rate remains identical to that at December 31, 2012 (0.19%), the total effective implied interest rate would be 1.14% in 2013, the last interest-rate swaps having expired in 2012 (see note 18.4).

Note 18.3.2 Covenants

At December 31 of each year, the company was bound during the period of the loan to respect 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. These two ratios were respected both in 2012 and in 2011.
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). The dividend of €6,330,000 in respect of fiscal 2011 paid in 2012 is consistent with this condition as is the dividend of €6,370,000 in respect of 2012 proposed by the Board of Directors for approval by the Ordinary Shareholders' Meeting on April 30, 2013.
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 before June 30, 2013 of the balance of the arbitral award (€11,097,000) still owed by El Corte Inglés would give rise to early repayment amounting to almost 50% of the total amount to be received, which would cover practically the full amount of the balance of the loan outstanding (see note 23.2).

Note 18.3.3 Repayable Advances

The Group booked 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 repayments were made in 2011 for €406,000 and in 2012 for €300,000. The balance of €1,294,000 will be repaid from 2013 through 2015.

NOTE 18.4 FINANCIAL INSTRUMENTS: INTEREST RATE HEDGES

The company had 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, since the loan contract signature in 2007 until December 31, 2012 (when the last interest-rate swaps expired).

NOTE 18.5 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:

	2012			2011		
	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]	5,360	15,920	27	15,920	28,384	22
Non-interest bearing repayable advances	1,366	1,457	–	1,769	1,937	–
Total	**6,726**	**17,377**	**27**	**17,689**	**30,322**	**22**

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

NOTE 18.6 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 U.S. 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 significant balance sheet currency positions at December 31, 2012 and 2011 are analyzed below:

	2012				2011			
	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	9,914	7,514	(25)	January 4, 2013	11,913	9,207	108	January 6 and 13, 2012
AUD	(543)	(427)	2	January 4, 2013	(1,417)	(1,114)	(11)	January 6, 2012
CAD	949	723	(2)	January 4, 2013	1,168	884	5	January 6, 2012
GBP	(1,765)	(2,163)	10	January 4 and 28, 2013	(1,361)	(1,629)	–	January 6, 2012
HKD	6,622	648	(4)	January 4, 2013	7,334	730	7	January 6, 2012
JPY	(175,813)	(1,548)	2	January 4 and 28, 2013	(200,780)	(2,004)	(17)	January 6, 2012
PLN	(4,019)	(986)	3	January 4, 2013	(1,399)	(314)	8	January 9, 2012
Total		**3,761**	**(15)**			**5,760**	**101**	

(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 of the forward contracts.

Fair value of forward currency contracts at December 31, 2012 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 13% 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 the most significant parent company's foreign currency assets and liabilities, together with the net value of forward transactions unexpired at December 31, 2012 and December 31, 2011:

	2012							
(in thousands of currencies)	USD	BRL	CAD	GBP	INR	JPY	PLN	SGD
Carrying position to be hedged:								
Trade account receivables	19,345	7,229	1,350	1	6,667	321	(7)	–
Cash	103	–	–	–	–	–	–	–
Trade payables	(10,959)	(4,453)	(1)	(1,783)	(37,650)	(175,340)	(4,019)	(1,124)
Total	**8,489**	**2,776**	**1,349**	**(1,782)**	**(30,983)**	**(175,019)**	**(4,026)**	**(1,124)**
Nominal net of hedges	(9,914)	–	(949)	1,765	11,051	175,813	4,019	1,088
Net residual position	**(1,425)**	**2,776**	**400**	**(17)**	**(19,932)**	**794**	**(7)**	**(36)**
Equivalent value in euros at closing rate	(1,080)	1,027	305	(21)	(275)	7	(2)	(22)
Analysis of sensitivity to currency fluctuations								
Closing rate	1.32	2.70	1.31	0.82	72.56	113.61	4.07	1.61
5% currency depreciation relative to closing rate								
Closing rates parity depreciated by 5%	1.39	2.84	1.38	0.86	76.19	119.29	4.28	1.69
Currency transalation impact	51	(49)	(15)	1	13	(0)	0	1
Impact on stockholders' equity	–	–	–	–	–	–	–	–
5% currency appreciation relative to closing rate								
Closing rates parity appreciated by 5%	1.25	2.57	1.25	0.78	68.93	107.93	3.87	1.53
Currency transalation impact	(57)	54	16	(1)	(14)	0	(0)	(1)
Impact on stockholders' equity	–	–	–	–	–	–	–	–

	2011							
(in thousands of currencies)	USD	BRL	CAD	GBP	INR	JPY	PLN	SGD
Carrying position to be hedged:								
Trade account receivables	21,203	5,704	1,158	(2)	5,035	198	(2)	–
Cash	835	–	–	–	–	–	–	–
Trade payables	(11,080)	(4,912)	(9)	(1,346)	(5,888)	(178,875)	(1,878)	(976)
Total	**10,958**	**791**	**1,149**	**(1,347)**	**(853)**	**(178,677)**	**(1,880)**	**(976)**
Nominal net of hedges	(11,913)	–	(1,168)	1,361	–	200,780	1,399	759
Net residual position	**(956)**	**791**	**(19)**	**14**	**(853)**	**22,103**	**(481)**	**(217)**
Equivalent value in euros at closing rate	(739)	328	(14)	16	(12)	221	(108)	(129)
Analysis of sensitivity to currency fluctuations								
Closing rate	1.29	2.42	1.32	0.84	68.71	100.20	4.46	1.68
5% currency depreciation relative to closing rate								
Closing rates parity depreciated by 5%	1.36	2.54	1.39	0.88	72.15	105.21	4.68	1.77
Currency transalation impact	35	(16)	1	(1)	1	(11)	5	6
Impact on stockholders' equity	–	–	–	–	–	–	–	–
5% currency appreciation relative to closing rate								
Closing rates parity appreciated by 5%	1.23	2.30	1.26	0.79	65.28	95.19	4.24	1.60
Currency transalation impact	(39)	17	(1)	1	(1)	12	(6)	(7)
Impact on stockholders' equity	–	–	–	–	–	–	–	–

NOTE 19 TRADE AND OTHER PAYABLES

	2012	2011
Trade payables	17,335	20,229
Social debts	16,241	15,360
Fiscal debts	5,250	4,960
Down-payments from customers	5,165	5,405
Other current payables	274	742
Total	**44,265**	**46,696**

The €2,894,000 decrease in trade accounts payables compared to December 31, 2011 arises primarily from the decrease in volumes purchased for the production of CAD/CAM equipment at the end of 2012, some purchases of the new generation of *Vector* cutting machines having been brought forward to earlier in the year.

NOTE 20 DEFERRED REVENUES

	2012	2011
Deferred recurring software evolution and services contracts	38,992	33,546
Other deferred revenues[1]	2,919	2,176
Total	**41,911**	**35,722**

(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 13).

NOTE 21 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Provisions for employee-related claims	Provisions for fiscal litigation	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2011	250	1,126	1,021	475	2,872
Additional provisions	365	594	–	1,232	2,191
Used amounts reversed	(399)	(237)	(29)	(967)	(1,632)
Unused amounts reversed	(28)	(63)	(31)	(58)	(180)
Exchange rate differences	–	(93)	(6)	–	(99)
Provisions at December 31, 2011	**188**	**1,327**	**955**	**682**	**3,152**

	Provisions for employee-related claims	Provisions for fiscal litigation	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2012	188	1,327	955	682	3,152
Additional provisions	1,421	138	–	933	2,492
Used amounts reversed	(482)	–	(90)	(1,006)	(1,578)
Unused amounts reversed	(48)	–	(112)	(69)	(229)
Exchange rate differences	–	(151)	(5)	–	(156)
Provisions at December 31, 2012	**1,079**	**1,315**	**748**	**540**	**3,682**

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, 2012.
To the Group's knowledge, there were no proceedings pending at December 31, 2012, 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 22 ADDITIONAL DISCLOSURE CONCERNING FINANCIAL INSTRUMENTS

The Group has designated the following main categories of financial assets and liabilities:

At december 31, 2012	IAS 39 category	Carried at amortized cost	Carried at cost	Carried at fair value through profit or loss	Carried at fair value 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			921	921
Trades account receivables	Loans and receivables		X			45,149	45,149
Other current assets	Loans and receivables		X			5,762	5,762
Derivatives not designated as hedges	Financial assets at fair value through profit and loss			X		–	–
Derivatives designated as hedges	Financial assets at fair value with changes recognized in equity				X	–	–
Cash and cash equivalents	At fair value through profit and loss			X		20,966	20,966
Total financial assets						**72,798**	**72,798**
Interest-bearing bank loans	Financial liabilities carried at amortized cost	X				5,360	5,360
Repayable advance OSEO	Financial liabilities carried at amortized cost	X				1,366	1,366
Cash facilities	Financial liabilities carried at amortized cost	X				–	–
Derivatives not designated as hedges	Financial liabilities at fair value through profit and loss			X		14	14
Derivatives designated as hedges	Financial liabilities at fair value with changes recognized in equity				X	–	–
Trade payables and other current liabilities	Financial liabilities carried at amortized cost	X				44,265	44,265
Total financial liabilities						**51,005**	**51,005**

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 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	Financial assets at fair value with changes recognized in equity				X	–	–
Cash and cash equivalents	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 interest-rate 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.

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.

NOTE 23 ADDITIONAL DISCLOSURES

NOTE 23.1 COMMITMENTS GIVEN AND RECEIVED

COMMITMENTS GIVEN

	Payments due by period			
Contractual commitments	Less than 1 year	Between 1 to 5 years	More than 5 years	Total
Rental contracts: offices	4,380	9,340	137	13,857
Rental contracts: others[1]	3,225	3,088	–	6,312
Total rental contracts	**7,604**	**12,428**	**137**	**20,170**
Other guarantees: sureties[2]	1,685	996	–	2,681

(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 leases made by the latter to its subsidiaries.

Rentals booked as expenses in 2012 amounted to €10,214,000.

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.
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.
Because of the long limitation periods on certain legal actions and procedures, up to 30 years in some cases, these commitments will not be mentioned in future reports except when new liabilities emerge.

NOTE 23.2 LITIGATION WITH INDUYCO PENDING

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 €26.2 million in Damages and Interest (as of December 31, 2012)

In June 2005, Lectra initiated arbitration proceedings against Induyco (then part 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, 2012, amounts to €1 million, bringing the total amount at that date to €26.2 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.
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.

(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.

Lectra Obtained Exequatur *in Spain of the Award Rendered by the International Arbitral Tribunal against Induyco, which Induyco Appealed the Judgment*

Lectra filed a procedure of *exequatur* 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 *exequatur* issued on June 27, 2011, the Madrid Court of First Instance had recognized the arbitral award rendered against Induyco by the International Arbitral Tribunal. It had thus confirmed the award is valid and enforceable in Spain and rejected Induyco's challenge to Lectra's *exequatur*.

The Madrid Court of Appeal Upholds the Enforcement in Spain of the October 2009 Award Rendered Against Induyco by the International Arbitral Tribunal

In a decision issued on January 28, 2013, the Madrid Court of Appeal upheld the judgment of the Madrid Court of First Instance of June 27, 2011, recognizing the validity and enforceability in Spain of the arbitral award rendered against Induyco in London. With this decision, the Court of Appeal has, in turn, rejected Induyco's challenge to Lectra's claim for *exequatur*.

As Induyco was merged into El Corte Inglés on December 18, 2012 and immediately dissolved, El Corte Inglés has now replaced Induyco as the current debtor of Lectra for the balance still due.

Lectra is determined to pursue the execution of the award until the payment of the full amount due to it.

The Company Has Recorded in its Accounts only the €15.1 Million Actually Received out of the Full Amount of the Arbitral Award of €26.2 Million

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.

The January 28, 2013 decision does not modify the accounting of the award in the Group's financial statements.

The company has only recorded the €15.1 million received in 2010 and conclusively non-refundable. The balance (€11.1 million) of the total amount of the award (€26.2 million at December 31, 2012) still due by El Corte Inglés was not recorded in the 2012 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, 2012 by Lectra amounts to €11.5 million. Legal fees and costs of the legal proceedings instituted by Induyco in Spain and England since October 28, 2009 (€1.6 million, of which €0.1 million in 2012 and €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 *exequatur* decision will result in a cash inflow equal to the balance of the award still owed by El Corte Inglés.

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 2012 and 2011 are also provided at 2011 exchange rates ("like-for-like"), as indicated in the notes concerned.

NOTE 24 REVENUES

In 2012, 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 24.1 REVENUES BY GEOGRAPHIC REGION

In 2012, nearly 75% of total revenues was generated in 10 countries or country groups (Brazil, China, France, Germany and Eastern Europe, Italy, Japan, Mexico, Spain, the United Kingdom and the United States), none of which individually accounts for more than 15%.
Group revenue generated in Italy accounts for 11%. The figure for Spain and Portugal, which declined as a result of their weak economies, represented only 3% each. The figure for Greece is not material.

	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	93,797	47%	93,367	98,712	48%	-5%	-5%
– France	19,130	10%	19,130	20,129	10%	-5%	-5%
Americas	50,188	25%	47,253	43,835	21%	+14%	+8%
Asia-Pacific	41,972	21%	38,911	52,660	26%	-20%	-26%
Other countries	12,479	6%	12,676	10,716	5%	+16%	+18%
Total	**198,436**	**100%**	**192,207**	**205,923**	**100%**	**-4%**	**-7%**

NOTE 24.2 REVENUES BY PRODUCT LINE

	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Software, of which:	55,313	28%	53,911	55,057	27%	+0%	-2%
– New licenses	23,374	12%	22,701	25,276	12%	-8%	-10%
– Software evolution contracts	31,939	16%	31,210	29,781	14%	+7%	+5%
CAD/CAM equipment	52,225	26%	50,083	63,007	31%	-17%	-21%
Hardware maintenance and on-line services	37,204	19%	36,156	34,657	17%	+7%	+4%
Spare parts and consumables	45,606	23%	44,163	43,739	21%	+4%	+1%
Training and consulting services	7,834	4%	7,646	8,932	4%	-12%	-14%
Miscellaneous	254	0%	248	532	0%	-52%	-53%
Total	**198,436**	**100%**	**192,207**	**205,923**	**100%**	**-4%**	**-7%**

NOTE 24.3 BREAKDOWN OF REVENUES BETWEEN NEW SYSTEMS SALES AND RECURRING REVENUES

	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales[1]	83,687	42%	80,679	97,746	47%	-14%	-17%
Recurring revenues[2], of which:	114,749	58%	111,528	108,177	53%	+6%	+3%
– Recurring contracts	67,472	34%	65,743	62,579	30%	+8%	+5%
– Other recurring revenues on the installed base	47,277	24%	45,785	45,599	22%	+4%	+0%
Total	**198,436**	**100%**	**192,207**	**205,923**	**100%**	**-4%**	**-7%**

(1) Revenues from new systems sales 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 24.4 BREAKDOWN OF REVENUES FROM NEW SYSTEMS SALES BY MARKET SECTOR

	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	41,248	49%	40,291	47,777	49%	-14%	-16%
Automotive	30,743	37%	28,967	37,558	38%	-18%	-23%
Furniture	5,705	7%	5,613	6,067	6%	-6%	-7%
Other industries	5,991	7%	5,809	6,344	6%	-6%	-8%
Total	**83,687**	**100%**	**80,679**	**97,746**	**100%**	**-14%**	**-17%**

NOTE 24.5 BREAKDOWN OF REVENUES BY CURRENCY

	2012	2011
Euro	48%	51%
U.S. dollar	30%	29%
Chinese yuan	5%	6%
Japanese yen	4%	4%
British pound	3%	3%
Other currencies[1]	10%	7%
Total	**100%**	**100%**

(1) No other single currency represents more than 3% of total revenues.

NOTE 25 COST OF GOODS SOLD AND GROSS PROFIT

	2012	2011
Revenues	**198,436**	**205,923**
Cost of goods sold, of which:	**(53,475)**	**(61,613)**
– Purchases and freight-in costs	(48,506)	(56,970)
– Inventory movement, net	1,717	2,046
– Industrial added value	(6,686)	(6,689)
Gross profit	**144,961**	**144,310**
(in % of revenues)	73.1%	70.1%

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 26 RESEARCH AND DEVELOPMENT

	2012	2011
Fixed staff costs	(15,362)	(15,958)
Variable staff costs	(108)	(88)
Other operating expenses	(1,418)	(1,705)
Depreciation expenses	(464)	(492)
Total before research tax credit and grants	**(17,353)**	**(18,243)**
(in % of revenues)	8.7%	8.9%
Research tax credit and government grants	5,817	6,780
Total	**(11,536)**	**(11,463)**

NOTE 27 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Fixed staff costs	(66,620)	(58,183)
Variable staff costs	(8,679)	(8,549)
Other operating expenses	(34,256)	(32,828)
Depreciation expenses	(3,091)	(2,756)
Net provisions	(966)	(1,228)
Total[1]	**(113,611)**	**(103,544)**
(in % of revenues)	57.3%	50.3%

(1) "Selling, general and administrative expenses" do not include the expenses comprised in "Industrial added value" (see note 25), which amounted to €6,686,000 in 2012 and €6,689,000 in 2011.

FEES PAID TO GROUP AUDITORS AND COMPANIES IN THEIR NETWORK

In 2012, other operating expenses comprise €727,000 in respect of the audit of all Group companies, of which €446,000 for PricewaterhouseCoopers, €241,000 for KPMG and €40,000 for other audit firms, excluding other services provided. The corresponding amount in 2011 was €777,000.

Fees paid by the Group in 2012 to the statutory auditors in respect of the audit and other services performed by their networks to consolidated entities were €791,000, of which €527,000 for PricewaterhouseCoopers and €264,000 for KPMG:

	PWC				KPMG			
	Amount		%		Amount		%	
	2012	2011	2012	2011	2012	2011	2012	2011
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
– Issuer (Lectra SA)	149	157	28%	30%	131	137	50%	55%
– Fully-consolidated subsidiaries	297	270	56%	51%	110	107	42%	43%
Others services directly related to the Auditors' engagement								
– Issuer (Lectra SA)	–	–	0%	0%	–	–	0%	0%
– Fully-consolidated subsidiaries	–	–	0%	0%	–	–	0%	0%
Sub-total	**446**	**427**	**85%**	**81%**	**241**	**244**	**91%**	**98%**
Other services to consolidated entities								
Legal, tax and social reviews	80	99	15%	19%	23	4	9%	2%
Sub-total	**80**	**99**	**15%**	**19%**	**23**	**4**	**9%**	**2%**
Total	**527**	**526**	**100%**	**100%**	**264**	**248**	**100%**	**100%**

NOTE 28 STAFF

NOTE 28.1 TOTAL PERSONNEL EXPENSES

The table below combines all fixed and variable personnel costs for the Group.

	2012	2011
Research and development	(15,470)	(16,046)
Selling, general and administrative	(75,299)	(66,732)
Manufacturing, logistics and purchasing[1]	(4,627)	(4,585)
Total	**(95,396)**	**(87,363)**

(1) "Manufacturing, logistics and purchasing" personnel expenses are included in the cost of goods sold, in "Industrial added value" (see note 25).

The increase in personnel expenses in "Selling, general and administrative" stems mainly from the transformation plan (which comprises a major recruitment plan to bolster sales and marketing teams) deployed by the Group since the end of 2011.

NOTE 28.2 HEADCOUNT AT DECEMBER 31

	2012	2011
Parent company[1]	655	662
Subsidiaries[2], of which:	690	676
– Europe	304	307
– Americas	153	144
– Asia-Pacific	166	157
– Other countries	67	68
Total	**1,345**	**1,338**

(1) In 2012 as in 2011, expatriates are attached to the economic entities for which they work.
(2) Refers to all consolidated and non-consolidated Group companies.

ANALYSIS OF HEADCOUNT BY FUNCTION

	2012	2011
Marketing, Sales	236	214
Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance)	445	451
Research and Development	213	218
Purchasing, Production, Logistics	153	154
Administration, Finance, Human Resources, Information Systems	298	301
Total	**1,345**	**1,338**

NOTE 28.3 CONTRIBUTIONS TO PENSION PLANS

Contributions to compulsory or contractual pension plans are expensed in the year in which they are paid.
During 2012, subsidiaries subject to defined-contribution pension plans booked a sum of €3,495,000 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 28.4 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, 2012 by employees of the parent company is 66,967. Employees have not yet exercised their rights to 66,642 hours of training.

NOTE 28.5 EMPLOYEE PROFIT-SHARING AND INCENTIVE PLANS

PROFIT-SHARING PLAN

An amendment to the October 1984 employee profit-sharing plan (*participation*), 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.
There will be no profit-sharing payment in 2013 in respect of fiscal 2012, due to non-fulfillment of the threshold for payment.
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 paid €421,000 into the employee profit-sharing plan in 2012, in respect of 2011.

INCENTIVE PLAN–PROFIT SHARING BONUS

A collective employee incentive plan (*intéressement*), 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.
The cumulative incentive and profit sharing bonus (*prime de partage des profits*) amount in respect of fiscal 2012 equals to €1,594,000 (€1,266,000 in respect of 2011). For fiscal 2012, an interim payment of €603,000 was made in November 2012, the balance outstanding to be paid in the first half of 2013.

NOTE 28.6 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 four 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 to include four criteria reflecting the company's strategy of profitable activity and earnings growth. These criteria remained in force in 2012:
– 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 2012 and 2011 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 with maxima of 75% and 46% respectively.

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 ten 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 2012, the variable portion of compensation for the four members of the Group management represented 96% of the amount payable on fulfillment of annual targets, the annual free cash-flow target having been exceeded but the three other criteria having been missed.

In 2011, the variable portion of their 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.

Aggregate compensation and benefits in kind paid to the Group management team in 2012 (excluding directors' fees for the two executive directors), amounted to €1,664,000, of which €870,000 in fixed compensation, €749,000 in variable compensation, and €45,000 in benefits in kind.

In respect of 2011, this aggregate compensation and benefits in kind paid to these same managers amounted to €1,705,000, of which €844,000 in fixed compensation, €819,000 in variable compensation, and €42,000 in benefits in kind.

Only the Chief Financial Officer and the Chief Human Capital and Information Officer were granted stock options in 2012 (respectively 111,961 and 89,569 maximum). A charge of €38,000 and €27,000 was recognized in respect of 2012 as a result of the new stock option plan together with prior-year plans concerning these two beneficiaries (€45,000 and €30,000 in respect of 2011). The two executive directors held no stock options (see note 15.5.5).

NOTE 28.7 DIRECTORS' FEES

Subject to the approval of the General Meeting of Shareholders on April 30, 2013, €100,000 in directors' fees will be allocated in equal proportions to the four members of the Board with respect to fiscal 2012, unchanged compared to 2011.

Compensation paid to the two non-executive directors consists exclusively of directors' fees.

NOTE 29 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:

	2012	2011
Research and development[1]	(464)	(492)
Selling, general and administrative	(3,091)	(2,756)
Manufacturing, logistics and purchasing[2]	(486)	(561)
Total	**(4,041)**	**(3,809)**

(1) Amortization charges allocated to "Research and development" pertain to the share of the intangible assets and property, plant and equipment used by these teams. R&D costs themselves are expensed in full in the year.
(2) 'Manufacturing, logistics and purchasing' depreciation and amortization charges are included in 'Industrial added value' (see note 25).

NOTE 30 FINANCIAL INCOME AND EXPENSES

	2012	2011
Financial income, of which:	318	656
– Gains on sales of cash equivalents	130	288
– Other interest income	92	162
– Reversal of provisions for depreciation of investments and loans	96	206
Financial expenses, of which:	(1,336)	(2,204)
– Bank charges	(543)	(682)
– Interest expense on bank loans and financial debts	(626)	(1,510)
– Other financial expenses	(167)	(12)
Total	**(1,018)**	**(1,548)**

Interest expense on borrowings in 2012 comprised €626,000 (€1,487,000 in 2011) in interest on the medium-term bank loan contracted to finance the public stock buyback tender offer carried out in 2007 (see note 18.3).

NOTE 31 FOREIGN EXCHANGE INCOME (LOSS)

A foreign exchange translation loss of €287,000 was recognized in 2012 (€165,000 in 2011).
At December 31, 2012, as at December 31, 2011, the company held no currency options (see note 18.6).

NOTE 32 SHARES USED TO COMPUTE EARNINGS PER SHARE

At December 31, 2012 and 2011, the company had not issued any dilutive instrument other than the stock options detailed in note 15.5.

Basic earnings per share	2012	2011
Net income (in thousands of euros)	13,644	19,456
Weighted average number of shares outstanding during the period[1]	28,928,312	28,789,896
Weighted average number of treasury shares held during the period	(121,596)	(80,767)
Weighted average number of shares used to compute basic earnings per share	28,806,716	28,709,129
Basic earnings per share (in euros)	**0.47**	**0.68**

(1) In 2012, 44,705 stock options were exercised, giving rise to the creation of 44,705 new shares. In 2011, 404,596 stock options were exercised, giving rise to the creation of 404,596 new shares (see note 15).

Diluted earnings per share	2012	2011
Net income (in thousands of euros)	13,644	19,456
Weighted average number of shares outstanding during the period[1]	28,928,312	28,789,896
Weighted average number of treasury shares held during the period	(121,596)	(80,767)
Dilutive effect of stock options, under the share repurchase method[2]	473,957	659,667
Weighted average number of shares used to compute diluted earnings per share	29,280,673	29,368,796
Diluted earnings per share (in euros)	**0.47**	**0.66**

(1) In 2012, 44,705 stock options were exercised, giving rise to the creation of 44,705 new shares. In 2011, 404,596 stock options were exercised, giving rise to the creation of 404,596 new shares (see note 15).
(2) In 2012, due to an average share price of €4.68 during the period, the dilutive effect of stock options under the share repurchase method resulted in 473,957 theoretical additional shares (659,667 theoretical additional shares in 2011 due to an average share price of €5.67).

NOTE 33 INCOME STATEMENT AT CONSTANT EXCHANGE RATES

	2012		2011	Changes 2012/2011	
	Actual	At 2011 exchange rates	Actual	Actual	Like-for-like
Revenues	**198,436**	**192,207**	**205,923**	**-4%**	**-7%**
Cost of goods sold	(53,475)	(52,882)	(61,613)	-13%	-14%
Gross profit	**144,961**	**139,325**	**144,310**	**+0%**	**-3%**
Research and development	(11,536)	(11,536)	(11,463)	+1%	+1%
Selling, general and administrative expenses	(113,611)	(111,001)	(103,544)	+10%	+7%
Income from operations	**19,814**	**16,789**	**29,303**	**-32%**	**-43%**
(in % of revenues)	10.0%	8.7%	14.2%	-4.2 points	-5.5 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 U.S. 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 Chinese yuan, the Japanese yen, and the Brazilian real. The overall currency variations between 2011 and 2012 have increased 2012 Group revenues by €6,229,000 and income from operations by €3,025,000.

The U.S. dollar alone (average parity versus the euro $1.39/€1 in 2011 and $1.29/€1 in 2012) accounts for a increase of €4,377,000 in revenues and of €2,607,000 in income from operations in the 2012 figures at actual exchange rates, relative to the 2012 figures at 2011 exchange rates.

In 2012, 48% of the Group's consolidated revenues, 91% of its cost of sales, and 72% of its overhead expenses were denominated in euros. These percentages were respectively 30%, 5%, and 11% for the U.S. dollar. The Chinese yuan represented nearly 5% 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.

SENSITIVITY OF REVENUES AND INCOME FROM OPERATIONS TO A CHANGE IN CURRENCIES EXCHANGE RATES

The company has based its 2013 scenarios on the February 1 parities of the currencies in which the Group generates its revenues, in particular $1.35/€1.

In view of the estimated share of revenues and costs denominated in dollars or in currencies correlated with the dollar, a 1% rise in the euro against the dollar would mechanically entail a fall in 2013 revenues of around €0.8 million and of €0.4 million in income from operations. Conversely, a 1% fall in the euro would increase revenues and income from operations by the same amounts.

In addition to fluctuating against the dollar and against currencies strongly correlated with it, the euro also fluctuates against the other currencies. However, these variations are frequently heterogeneous both in direction (upward and downward) and in scale. However, the monetary policies of most of the major countries could lead to a more global appreciation of the euro against a very large number of currencies, as illustrated by exchange rate trends since the beginning of 2013.

Consequently, the theoretical hypothesis of a 1% appreciation of the euro against all of the other currencies in which the company conducts its business would mechanically reduce revenues by an additional €0.2 million and income from operations by an additional €0.1 million. Conversely, a 1% fall in the euro would boost revenues and income from operations by the same additional amounts.

NOTE 34 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

2012: quarter ended	March 31	June 30	September 30	December 31	2012
Revenues	**47,813**	**51,664**	**47,852**	**51,107**	**198,436**
Cost of goods sold	(12,876)	(14,364)	(12,370)	(13,865)	(53,475)
Gross Profit	**34,937**	**37,300**	**35,482**	**37,242**	**144,961**
Research and development	(3,079)	(2,948)	(2,494)	(3,015)	(11,536)
Selling, general and administrative expenses	(28,017)	(28,859)	(27,624)	(29,111)	(113,611)
Income (loss) from operations	**3,841**	**5,493**	**5,364**	**5,116**	**19,814**
Net Income (loss)	**2,694**	**3,575**	**3,781**	**3,594**	**13,644**

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)	(26,341)	(103,544)
Income (loss) from operations	**5,462**	**7,419**	**8,806**	**7,616**	**29,303**
Net Income (loss)	**3,668**	**5,124**	**5,825**	**4,839**	**19,456**

NOTE 35 OPERATING SEGMENT INFORMATION

2012	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	93,797	50,188	41,972	12,479	–	198,436
Income (loss) from operations	6,771	240	(1,562)	1,096	13,269	19,814

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[1]	8,867	600	1,648	1,391	16,797	29,303

(1) As required in the standard IAS 8, the impacts of the change in the method of recognition of actuarial gains and losses arising from the measurement of defined benefit pensions in the statement of comprehensive income, as explained in note 2 "Accounting rules and methods", are restated from the income from operations at December 31, 2011.

Income from operations, which is obtained by adding together the income for each segment, is identical to consolidated income from operations shown in the Group's consolidated financial statements and therefore does not require reconciliation.

NOTE 36 NON-CASH OPERATING EXPENSES

In 2012, as in 2011, "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 2.26 Translation 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 37 CHANGES IN WORKING CAPITAL REQUIREMENT

In 2012, the net increase of the working capital requirement amounts to €4,937,000 and breaks down as follows:

- –€3,711,000 corresponding to a decrease in trade accounts receivable, given the drop in sales of new systems and faster collection of accounts receivable (the variation in accounts receivable includes "Deferred revenues" in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues—see note 13);
- +€1,974,000 corresponding to an increase in inventories, a major part of this increase being resulting from the launch of the new *Versalis* and *Vector* cutter generations;
- +€5,715,000 arising from the (French) research tax credit receivable for 2012, recognized but not received;
- +€959,000 arising from the change in other current assets and liabilities; taken individually, these changes are immaterial.

In 2011, the net increase in the working capital requirement was €9,855,000 and comprised 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 2011;
- +€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 paid in 2012.

At December 31, 2012, as at December 31, 2011, the ratio of accounts receivable net of down payments received and deferred revenues, measured in DSO (Days Sales Outstanding) represented less than 10 days of revenues (inclusive of VAT).

NOTE 38 REPAYMENT OF LONG TERM AND SHORT TERM BORROWINGS

NOTE 38.1 PROCEEDS FROM LONG TERM AND SHORT TERM BORROWINGS

In 2012 as in 2011, the Group did not contract any new financial debts.

NOTE 38.2 REPAYMENT OF LONG TERM AND SHORT TERM BORROWINGS

In 2011, the company made a repayment of €3,840,000 on June 30, ahead of the scheduled repayment date, pursuant to the excess cash flow clause in the loan contract (there was no repayment under this clause in 2012) and a voluntary repayment of €10,000,000 on December 31 (in addition to the contractual repayments which were reduced to €560,000 due to the repayment ahead of schedule for €10,000,000 made on December 31, 2010).
The repayment of €10,000,000 made on December 31, 2011 ahead of the scheduled repayment date, replaced the contractual half-yearly installments due in respect of 2012, which were consequently reduced to €560,000 and effectively repaid at December 31, 2012.
On December 31, 2012, the company made another voluntary repayment of €10,000,000 ahead of schedule, which similarly substitutes for the contractual half-year repayments due in 2013, consequently reduced to €5,360,000 (see note 18.3).
Repayment of borrowings in 2012 also concerns public subsidies previously received to finance R&D programs for €374,000 (€531,000 in 2011).

NOTE 39 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.

	2012	2011
Net cash (used in)/provided by operating activities	16,320	17,712
Net cash (used in)/provided by investing activities	(4,783)	(3,518)
Free cash flow	**11,537**	**14,194**

In 2012, net cash provided by operating activities comprises a €4,937,000 increase in working capital requirement (an increase of €9,855,000 in 2011).
Details of changes in working capital requirement are provided in note 37 above.
Free cash flow amounted to €11,537,000 (€14,194,000 in 2011, including €987,000 in non-recurring disbursements).
There have not been any non-recurring disbursements in 2012.

STATUTORY AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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 December 31, 2012, 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 December 31, 2012 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.

Without qualifying our opinion, we draw your attention to the matter set out in the note 2.1 to the consolidated financial statements which describes a change in accounting principle in relation with the accounting of actuarial gains and losses for defined retirement benefit plans.

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:

The note 2.1 to the consolidated financial statements outlines the change of accounting method which occurred during the year regarding the accounting of actuarial gains and losses for defined retirement benefit plans. According to standard IAS 8, the comparative information related to the year ended December 31, 2011 was restated retrospectively to take into consideration the corresponding impacts of this change of accounting method. As a consequence, the comparative information is different from the released 2011 consolidated financial statements. In the context of our assessment of the accounting principles of your company, we have examined the appropriateness of the restatement of the 2011 accounts and the corresponding information provided in the note 2.1 to the consolidated financial statements.

Your company systematically performs impairment tests of goodwill at year end and also assesses any impairment indicators, as explained in the note 2.6 "Fixed assets impairment – Impairment tests" to the consolidated financial statements. We have 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 note 6 "Goodwill".

As explained in the note 2.8 "Deferred income tax", your Company is led 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 11.3.

The note 23.2 "Litigation with Induyco pending" 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 principles mentioned above and the information provided in the notes to the consolidated 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, on February 28, 2013

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

For the year ended December 31, 2012

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, 2012.
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, on February 28, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit SA

Bruno Tesnière

KPMG SA

Anne Jallet-Auguste

Éric Junières

BIOGRAPHIES OF LECTRA DIRECTORS AND MEMBERS OF THE GROUP EXECUTIVE COMMITTEE

André Harari

André Harari, 69, 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, 58, 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'Études 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, 51, 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, 53, 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, 62, 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 of 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 Paperflow (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.
Anne Binder graduated from the Institut d'Études 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, 68, 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 MS (DECS) in accounting from the University of Paris and a BA in economics from the University of Paris-Assas.

ADDRESSES OF LECTRA SUBSIDIARIES AND OFFICES

www.lectra.com

WORLD HEADQUARTERS

16-18, rue Chalgrin
75016 Paris – France
Tel.: +33 (0)1 53 64 42 00
Fax: +33 (0)1 53 64 43 00

INDUSTRIAL FACILITIES

23, chemin de Marticot
33610 Bordeaux–Cestas – France
Tel.: +33 (0)5 57 97 80 00
Fax: +33 (0)5 57 97 82 07

CALL CENTERS

Asia-Pacific Call Centers
Tel.: +800 819 1688
+86 (0)21 5389 1640 (China)
+852 2375 3011 (HKSAR)
+886 (0)800 311 163 (Taiwan)
Fax: +86 (0)21 5426 2575 (China)

Europe Call Center
Tel.: +800 00 LECTRA /
+800 00 532872
Fax: +33 (0)5 57 97 82 13

India Call Center
Tel.: +91 (0)80 4001 8005
Fax: +91 (0)80 4001 8008

Italy Call Center
Tel.: +800 00 532872
Fax: +39 0226 41 04 17

North America Call Center
Tel.: +1 877 4 LECTRA /
+1 877 453 2872
Fax: +1 800 746 8760

Spain Call Center
Tel.: +34 900 800 501
Fax: +34 917 888 906

INTERNATIONAL ADVANCED TECHNOLOGY AND CONFERENCE CENTER

23, chemin de Marticot
33610 Bordeaux–Cestas – France
Tel.: +33 (0)5 57 97 80 00
Fax: +33 (0)5 57 97 82 07

INTERNATIONAL ADVANCED TECHNOLOGY CENTERS

IATC Asia-Pacific
Floor 5-6th, Building No. 91, Phase 13
Caohejing Hi-Tech Park
No. 1122, North Qinzhou Road
200233 Shanghai – China
Tel.: +86 (0)21 5426 2929
Fax: +86 (0)21 5426 2576

IATC North America
889 Franklin Road, SE
Marietta, GA 30067-7945 – USA
Tel.: +1 770 422 8050
Fax: +1 770 422 1503

AUSTRALIA

Melbourne
Monash Corporate Centre
Unit 19-20 Duerdin Street
Clayton North
3168 Melbourne
Tel.: +61 (0)3 9912 5499
Fax: +61 (0)3 9558 6294

BELGIUM

Gent
Dendermondesteenweg 636
9070 Destelbergen
Tel.: +32 (0)9 222 20 26
Fax: +32 (0)9 222 50 06

BRAZIL

São Paulo
Al. Jaú, 1754 – 3° andar
Jardim Paulista
01420-002 São Paulo – SP
Tel.: +55 (11) 3894 9144
Fax: +55 (11) 3083 0744

Blumenau
Av. Martin Luther, 545 – Sala 03
Victor Konder
89012-010 Blumenau – SC
Tel.: +55 (47) 3322 1222
Fax: +55 (47) 3340 4658

CANADA

Montreal
Suite 900
110 Cremazie Boulevard West
Montreal (Quebec) H2P 1B9
Tel.: +1 514 383 4613
Fax: +1 514 383 5270

CHILE

Santiago
Av. Santos Dumont 267
Recoleta – Santiago de Chile
Tel.: +56 (0)2 735 6137
Fax: +56 (0)2 735 5787

CHINA

Shanghai
Floor 5-6th, Building No. 91, Phase 13
Caohejing Hi-Tech Park
No. 1122, North Qinzhou Road
200233 Shanghai
Tel.: +86 (0)21 5426 2929
Fax: +86 (0)21 5426 2576

Hong Kong
Units 2301-2&12, Tower 2
The Gateway
25 Canton Road – Tsimshatsui
Kowloon, Hong Kong
Tel.: +852 2722 5687
Fax: +852 2723 4664

Beijing
Office 5A, 5/F China Life Tower Center
No. 16 Chaowai Street
Chaoyang District Beijing 100020
Tel.: +86 (0)10 5877 1710
Fax: +86 (0)10 5894 6330

Guangzhou
Room 1905-1906, Dongbao Tower
No. 767 Dong Feng Dong Road
Guangzhou
Tel.: +86 (0)20 3832 0884
Fax: +86 (0)20 3832 0957

CROATIA

Zagreb
Lectra Deutschland GmbH
Glavna podružnica Zagreb
Kustošijanska 8
10000 Zagreb
Tel.: +385 (0)1 3906 842
Fax: +385 (0)1 3906 843

DENMARK

Herning
Viborgvej 97 A, 1 sal
7400 Herning
Tel.: +45 9715 4966
Fax: +45 9715 4899

ESTONIA

Tallinn
Pärnu mnt. 20a-3
10141 Tallinn – Harjumaa
Tel.: +372 609 33 90
Fax: +372 609 33 91

FINLAND

Helsinki
Aleksanterinkatu 15B, 6krs
00100 Helsinki
Tel.: +358 (0)9 7594 430
Fax: +358 (0)9 7594 4344

FRANCE

Paris
16-18, rue Chalgrin
75016 Paris
Tel.: +33 (0)1 53 64 42 00
Fax: +33 (0)1 53 64 43 00

Lyon
Le Polaris
45, rue Sainte-Geneviève
69006 Lyon
Tel.: +33 (0)4 72 83 84 10
Fax: +33 (0)4 72 83 84 20

Cholet
Espace Performance – Bât. A
2, place Michel-Ange
49300 Cholet
Tel.: +33 (0)2 41 49 18 70
Fax: +33 (0)2 41 49 18 79

GERMANY

Munich
Adalperostrasse 80
85737 Ismaning
Tel.: +49 (0)89 99 6260
Fax: +49 (0)89 99 6261 99

Nuremberg
Südwestpark 60
90449 Nuremberg
Tel.: +49 (0)91 19 6798 66
Fax: +49 (0)91 19 6798 67

INDIA

Bangalore
No. 31/1 2nd Floor
Bull Temple Road
Basavanagudi
Bangalore 560004
Tel.: +91 (0)80 4001 8000
Fax: +91 (0)80 4001 8008

ISRAEL

Netanya
5 Arye Regev St.
PO Box 8309
New Industrial Area
Netanya 42504
Tel.: +972 (0)9 835 5227
Fax: +972 (0)9 835 5228

ITALY

Milan
Via Gaetano Crespi, 12
20134 Milano (MI)
Tel.: +39 02 21 0471
Fax: +39 02 2641 0417

Ancona
Via Vecchia del Pinocchio, 26/B
60131 Ancona (AN)
Tel.: +39 071 286 5021
Fax: +39 071 286 6146

JAPAN

Tokyo
Bosch Building Akasaka 2F
2-13-1 Nagata-cho, Chiyoda-ku
Tokyo 100-0014
Tel.: +81 (0)3 5521 1521
Fax: +81 (0)3 5521 1522

Okayama
Shin Kurashiki Kitaguchi Building 1F
544-1 Tamashima Tsumasaki
Kurashiki-shi
Okayama 710-0252
Tel.: +81 (0)86 525 0830
Fax: +81 (0)86 525 0834

Osaka
Osaka Kokusai Building 19F
2-3-13 Azuchi-machi, Chuo-ku
Osaka 541-0052
Tel.: +81 (0)6 4964 1251
Fax: +81 (0)6 4964 1252

MEXICO

Mexico City
Cadiz 59, Col. Insurgentes
Mixcoac Del. Benito Juarez
03920 Mexico City
Tel.: +52 (01) 5555 639 191
Fax: +52 (01) 5555 639 192

MOROCCO

Casablanca
219, bd Zerktouni n° 65-66
20060 Casablanca
Tel.: +212 (0)522 77 44 20 / 21 / 22
Fax: +212 (0)522 23 00 44

NETHERLANDS

Breda
Voorerf 19
4824 GM Breda
Tel.: +31 (0)76 548 2188
Fax: +31 (0)76 548 2199

PHILIPPINES

San Juan City
Unit 407B, 4/F Quadstar Building
#80 Ortigas Avenue
Greenhills San Juan City 1500
Tel.: +63 (2)725 2366 / 8693
Fax: +63 (2)744 0670

POLAND

Warsaw
Lectra Deutschland GmbH Sp. z o.o.
Oddział w Polsce
Ul. Wisniowa 40/12
02-520 Warszawa
Tel.: +48 (0)22 646 8479
Fax: +48 (0)22 646 8481

PORTUGAL

Porto
Av. Dr. Antunes Guimarães, 521
4450-621 Leça da Palmeira
Tel.: +351 229 991 000
Fax: +351 229 991 001

Guarda
Rua da Corredoura
Lote 20 R/C Esq. Posterior
6300-825 Guarda
Tel.: +351 271 237 210
Fax: +351 271 237 210

Lisbon
Estrada Nacional 249
Multi-Business Center
D5 Abóboda
2785-035 São Domingos de Rana
Tel.: +351 214 462 480
Fax: +351 214 462 481

ROMANIA

Cluj
32A Avram Iancu
Cluj-Napoca, 400083
Tel.: +40 (0)264 593 268
Fax: +40 (0)264 439 033

RUSSIA

Moscow
Prospekt Andropova 18, Building 6
Office 4-10
115432 Moscow
Tel.: +7 (8)499 418 0391
Fax: +7 (8)499 922 2086 ext.113

SINGAPORE

Singapore
101 Thomson Road #09-02
United Square
Singapore 307591
Tel.: +65 6353 9788
Fax: +65 6352 5355

SOUTH AFRICA

Durban
3rd Floor, 197 North Ridge Road
Morningside
Durban 4001
Tel.: +27 (0)31 207 7110
Fax: +27 (0)31 207 2920

Johannesburg
1 East Gate Lane
Bedfordview
Johannesburg 2001
Tel.: +27 (0)11 622 2714
Fax: +27 (0)11 622 2490

Cape Town
PO Box 38763 – Pinelands
Cape Town 7430
Tel.: +27 (0)21 696 0600
Fax: +27 (0)21 696 0606

SPAIN

Madrid
Vía de los Poblados, 1
1ª Planta Edif. C/D
Parque Empresarial Alvento
28033 Madrid
Tel.: +34 917 888 800
Fax: +34 917 888 999

Barcelona
Salvador Espriu, 63
4ª Planta – Puerta 2ª
08005 Barcelona
Tel.: +34 934 150 502
Fax: +34 917 888 999

SWEDEN

Borås
Varbergsvägen 48
PO Box 974
50110 Borås
Tel.: +46 (0)33 237 870
Fax: +46 (0)33 237 878

TAIWAN

Taiwan
2F, 38-1, Sec. 1, Mingshen N. Road
Guishan Shiang
Taoyuan 33391
Tel.: +886 (0)3 326 7210
Fax: +886 (0)3 326 1049

TUNISIA

Tunis
Résidence El Amen
Rue du Lac Turkhana
1053 Les Berges du Lac
Tunis
Tel.: +216 71 963 703 / 962 470 /
861 689 / 861 582
Fax: +216 71 965 660

Ksar Hellal
Avenue Habib-Bourguiba
5070 Ksar Hellal
Tel.: +216 73 545 351
Fax: +216 73 547 206

TURKEY

Istanbul
Koza Plaza A Blok Kat. 13 N°. 49
Tekstilkent – Esenler Istanbul
Tel.: +90 (0)212 656 90 09
Fax: +90 (0)212 656 71 95

UNITED KINGDOM

Bradford
1st Floor, Jade Building
Albion Mills
Albion Road
Greengates BD10 9TQ
Tel.: +44 (0)1274 623080
Fax: +44 (0)1274 623099

London
4th Floor, 5 Conduit Street
London W1S 2XD
Tel.: +44 (0)207 5182900
Fax: +44 (0)207 5182901

UNITED STATES

Atlanta
889 Franklin Road, SE
Marietta, GA 30067-7945
Tel.: +1 770 422 8050
Fax: +1 770 422 1503

Los Angeles
5836 Corporate Ave., Suite 150
Cypress, CA 90630
Tel.: +1 714 484 6600
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[1]
Bernard Jourdan, *Chairman*
Anne Binder

Compensation Committee[1]
Bernard Jourdan, *Chairman*
Anne Binder

Strategic Committee
André Harari, *Chairman*
Anne Binder
Bernard Jourdan

(1) André Harari, who was a member of these committees until December 31, 2012, voluntarily relinquished his positions with effect from January 1, 2013, in anticipation of the new legal provisions (Audit Committee) and in order to comply with the recommendations of the AFEP-MEDEF Corporate Governance Code (Compensation Committee).

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*
Myriam Akoun-Brunet, *Director, Communications*
Laurent Alt, *Director, Software R&D*
Anastasia Charbin, *Director, Marketing Fashion*
Daniel Dufag, *General Counsel*
Jean-Maurice Férauge, *Director, Professional Services*
Javier Garcia, *Director, Strategic Accounts Manufacturing*
Laurence Jacquot, *Director, Hardware R&D and Manufacturing*
Bruno Mattia, *Director, Strategic Accounts Fashion*
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*
Rikako Shinonaga, *Director, 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*
Michael Stoter, *Director, South of 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