2018 Annual Financial Report

Summary

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 45th fiscal year, ended December 31, 2018.
It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 30, 2019, which in addition discusses in detail the financial statements and other disclosures relating to the parent company, Lectra SA, and presents its report on the Group's corporate social, environmental and societal responsibility information in the framework of the "Grenelle II" Act. This document is available, in French only, on the Company's website, lectra.com.
Detailed comparisons between 2017 and 2018 are based on 2017 exchange rates ("like-for-like"), unless stated otherwise.

1. SUMMARY OF EVENTS AND PERFORMANCE IN 2018

Acquisition of the company Kubix Lab

On January 25, 2018, the Company announced the acquisition of the Italian company Kubix Lab.
Founded at the end of 2015, Kubix Lab developed a cutting-edge technological offer called *Kubix Link*, which enables fashion brands to manage from end to end, within a single application, all product information deriving mainly from multiple IT systems (ERP, PDM, PLM, etc.). Users can then modify, enrich or add new data, while maintaining data synchronization with all IT systems.
The acquisition had a non-material impact on the results of 2018.

Negative impact of euro appreciation

With an average exchange rate of $1.18/€1 in 2018, the euro strengthened by 5% against the US dollar and 2% against the yuan compared to 2017. In parallel, in a context of distrust regarding the currencies of certain emerging market countries, the Turkish lira declined by 28%, the Brazilian real by 16%, the Tunisian dinar by 12%, the Russian ruble by 11% and the Indian rupee by 9% against the euro.

The appreciation of the euro against most currencies had a major negative mechanical impact on the full-year results, reducing revenues by €6.7 million (-2%) and income from operations by €3.3 million (-8%) at actual exchange rates, compared to like-for-like figures.

Challenging macroeconomic and geopolitical environment

The entire year was marked by a "wait-and-see" attitude by companies in all Lectra market sectors, particularly in automotive, following the protectionist measures announced and put in place first by the United States and subsequently by Europe and China. In addition, the economy of those emerging countries whose currency had experienced a sharp decline was negatively affected, leading some customers to put investment decisions on hold.

Stability in orders for new systems

Overall, orders for new systems amounted to €121.7 million, stable relative to 2017. Orders for new CAD/CAM and PLM software licenses decreased by 5%, orders for CAD/CAM equipment and accompanying software increased by 1%, and orders for training and consulting were down by 1%.
Orders for CAD/CAM and PLM software include sales in SaaS (Software-as-a-Service) mode, with an annual value of €0.9 million (this amount was negligible in 2017); equivalent orders for perpetual licenses would have come to €2 million and accounted for 13% of the total amount of software orders.
Orders decreased by 7% in Europe and 10% in Asia-Pacific. They increased by 28% in the Americas and by 18% in the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.).
Orders increased by 5% in the fashion and apparel market; while they decreased by 4% in the automotive market, 5% in the furniture market, and 4% in other industries. These markets accounted for 50%, 35%, 11% and 4% of total orders, respectively.
At actual exchange rates, orders for new systems decreased by 2%.

Income from operations in line with the Company's objectives

The Company's objectives for 2018, stated at the beginning of the year, were to achieve 6% to 10% revenue growth and 7% to 15% growth in income from operations, like-for-like.

The Company then indicated on July 25, and subsequently confirmed on October 30, that while revenue growth could be slightly lower, growth in income from operations should be in line with objectives.

Revenues amounted to €282.6 million, up 4% relative to 2017 (+2% at actual exchange rates).

Income from operations totaled €40.2 million, up €4.2 million (+11%) and the operating margin was 14.2%, up 0.8 percentage points. At actual exchange rates, income from operations rose by 2% and the operating margin was stable.

These results are in line with the Company's expectations as set out on July 25 and then October 30, 2018. These results are a new historic record. Net income amounted to €28.7 million, down €0.5 million (-2%) at actual exchange rates.

Free cash flow

Free cash flow totaled €21.6 million, compared to €33.2 million in 2017.

The variation between 2018 and 2017 arises primarily from the temporary change in operating working capital requirement, up €3.7 million in 2018, after having decreased by €7.8 million in 2017.

Impact of the sale of certain software in SaaS mode

In early 2018, the Company began selling some of its software on a subscription basis, using the Software-as-a-Service model. Its new software offers, available since April 2018, are sold only in SaaS mode. The change to the SaaS model, which is at the heart of the Company's strategic roadmap, will contribute to the long-term development of the Company's activities and strengthen its recurring revenue, while meeting customers' expectations. In the short-term, however, it has a negative impact as revenues from software subscriptions are recorded progressively over several years.

Software orders in SaaS mode, placed primarily in the second half of the year, represented an annual subscription value of €0.9 million and revenues of €0.3 million in 2018 for orders already invoiced. If the SaaS sales had been made in the form of perpetual licenses, they would have accounted for total revenues of €1.5 million, with their associated maintenance contracts. The change to the SaaS model thus had a negative impact of €1.2 million on both revenues and income from operations.

While this had a low impact on revenues, it had a greater impact on income from operations, which would have increased by 14% instead of 11% if the software sales model had not changed.

In addition, this change in model had a negative impact of €1 million on free cash flow in 2018.

A zero-debt Company, a particularly robust balance sheet

At December 31, 2018, consolidated shareholders' equity amounted to €170.4 million (€151.2 million at December 31, 2017).

The Company is debt free. Cash and cash equivalents, and the net cash position, totaled €102.2 million. This is also a record level, which will enable the Company to self-finance its internal and external development.

2. ASSESSMENT OF 2017-2019 STRATEGIC ROADMAP: SECOND PROGRESS REPORT

The successful completion of the previous two roadmaps (2010-2012 and 2013-2016), combined with the success of the €50 million Investments for the Future program over the 2012-2015 period, have enabled the Company to build its new strategic roadmap for 2017-2019 on particularly robust foundations.

The strategic roadmap—first published in the Financial Report dated February 9, 2017—constitutes the decisive initial stage in the evolution of Lectra over the next ten years. It sets out the fundamentals that will enable the Company to leverage the full potential of its new offers for Industry 4.0 from 2020 onwards. Its objectives are to reinforce Lectra's global leadership and ensure sustainable growth, while preserving its short-term profitability.

Overall, the second year of the roadmap was successfully completed according to plan.
The main sections of the roadmap are summarized below; each is followed by the corresponding second progress report.

Four major trends will shape Lectra's market sectors and geographic markets

Across the world, Lectra's customers face fast-changing economic and societal conditions, with wide regional variations. At the same time as pursuing their quest for operational excellence—more crucial today than ever—Lectra's customers must adapt to emerging trends set to significantly impact their future.
First, the Millennials. Born between 1980 and 2000, this generation represents the largest population of working age in history, and in a few years will equate to the largest number of consumers in the world. Brought up in a digital environment, Millennials are shaking up rules, behavior, needs and demands in terms of deliveries, quality, patterns of consumption, product personalization and respect for the environment.
Secondly, the digitalization of business. Made possible by an entire ecosystem of new technologies, from the cloud to mobility, and from augmented reality to artificial intelligence, the digitalization of processes and objects —now connected—is set to have a greater impact on organizations than the Internet. The process of analyzing and exploiting the data generated—big data—will expand the range of possibilities, from improving operations to building new business models.
Thirdly, the emergence of Industry 4.0. This concept, articulated in Germany in 2010 to tackle growing competition from emerging countries, has spearheaded today's fourth industrial revolution. Since then, many countries have put in place similar initiatives to modernize industrial tools, with a view to building smart factories. Examples include "Manufacturing USA" in the United States, *Industrie du Futur* (the factory of the future) in France, and "Made in China 2025" in China. Founded on the digitalization of industrial processes—from design to production—Industry 4.0 is charting a new organization for factories, increasing their flexibility while making better use of available resources.
Real-time communication between different participants, objects, production lines and services is at the heart of Industry 4.0.
Lastly, China's evolving economy. The country is accelerating its transition towards a growth model firmly anchored in consumption, added-value and productivity. While this evolution will create new opportunities, substantial challenges for both Chinese and non-Chinese companies will also emerge, with global consequences. Major Chinese industrial apparel companies are moving up the value chain. The most advanced are developing their own brands and launching first on the Chinese market, before entering international markets in certain cases.
China is intent on retaining its dominant position on the global industrial stage, with the government propelling factories towards full modernization. For its automotive industry—already world number one—by 2020 China is expected to account for nearly a third of all light vehicles produced in the world. In parallel, China is already the world's number one consumer of cars, with enormous growth potential. Indeed, its premium segment is set to overtake the United States in 2020. Finally, the furniture market, dominated by local brands, will continue to grow in step with the rise of China's middle class. Furniture exports are expected to decline progressively as a proportion of total output.

Progress report

These four main trends and their impact continue to constitute the main evolutions for the environment of Lectra customers. A growing number of companies in developed and emerging countries alike are incorporating a digital component in their strategy. The trade war between the United States and China does not call into question the fundamental change in the Chinese economy; the country's industrialists are advancing their digitalization transformation and incorporating the principles and technologies of Industry 4.0 in their processes, as the Chinese market confirms its potential for brands from across the globe.

Lectra, an indispensable player in Industry 4.0

Industry 4.0 presents an unprecedented opportunity for Lectra, calling for the integration of smart solutions and services, and the replacement of production plants incompatible with connected factory concepts. The combination of Software-as-a-Service (SaaS) with the cloud are opening up new horizons for innovation. Factories are at the heart of the value chain, propelling a new digitalized lifecycle for products for the benefit of consumers. With Industry 4.0, mass production will leave more and more room for large scale personalized—and profitable—manufacturing, with greater quality and no added costs or delays. This shift will drive all businesses to integrate modular solutions and connected, smart services, an essential condition of continuing competitiveness in the digital age. Fashion and apparel, as well as automotive and furniture manufacturers will have to ramp up their transformation, adopting the technologies and services shaping Industry 4.0.

With ten years' experience in the industrial Internet of Things, combined with its expertise in software to automate and optimize the design and development of fashion collections, Lectra is in a formidable position to help customers step into this new industrial age.

Lectra is the only player in its industry to propose a complete added-value offer, compatible with Industry 4.0 and critical to its deployment, across all market sectors and geographic markets.

In 2007, Lectra blazed a new trail when it fitted over a hundred sensors to its *Vector* automated cutter. Its capacity to develop and program its own electronics enables the Company to manage in real time information emitted by the many hundreds of thousands of sensors installed in current generations of *Vector*, *Versalis* and *FocusQuantum*. This also creates a high entry barrier for competitors, still reliant on standard electronic boards. In total, over 3,900 Industry 4.0-compatible machines are in operation worldwide.

By accelerating the integration of available new technologies, Lectra aims to significantly boost the value of its offer, reinforce its premium positioning, and hold onto its competitive edge.

Thanks to new offers, which Lectra started to develop in 2016, and by adapting its equipment to Industry 4.0 best practices, the Company will optimize customers' cutting room performance for each type of manufacturing and material. Customers will be able to maximize cutting operations throughput by anticipating production orders very early in the process, reduce total costs, and continually improve processes with new key performance indicators.

The same applies to Lectra's product design and development, and fashion collection management software. The cloud's capabilities are spawning a multitude of opportunities to automate tasks still performed manually, promoting collaboration between all of the teams involved in the process across a product's lifecycle, and reinforcing industrial integration with subcontractors.

These new offers, which started to be commercialized progressively in 2018, will be enriched in 2019. They will be compatible with all cutting machines sold since 2007, and with the latest releases of nearly all software.

Progress report

The year 2018 was highlighted by the launch in selected pilot countries of numerous innovative offers enabling Lectra's customers to implement the principles of Industry 4.0. These solutions constitute new product lines that meet customers' new requirements or that supplement existing software.

In April, Lectra launched in Europe and the United States its first cutting room 4.0 for Made-To-Order upholstered furniture. In December, the Company announced the rollout, starting in early 2019, of *Fashion On Demand by Lectra*, a disruptive new offer that enables production of personalized garments at ready-to-wear production speed. *Fashion On Demand by Lectra* streamlines operations thanks to its 360° view of the entire production cycle and optimizes the management of complex individual demands from custom order to cut piece.

These leading-edge offers deliver improved agility, production capacity and profitability to manufacturers. The foundation of Lectra's cutting room 4.0 is its *Digital Cutting Platform* and a cloud-based data hub, which connects design, development and manufacturing teams, while also ensuring seamless data exchanges between Lectra customers' IT systems, including ERP software, and production lines.

At the same time, Lectra launched *Virga*, its brand-new single-ply fabric cutting solution that analyzes the material, automatically adjusts the cutting layout and optimizes cycle times for plain and patterned fabrics, allowing simultaneous loading, scanning, cutting and offloading.

In April, the Company announced the first of a series of cloud-based applications conceptualized for product development and production teams: *Quick Estimate* and *Quick Nest*. These applications were first launched in France and Italy, then sold progressively in other countries in the latter part of 2018. Their commercial deployment will continue in 2019. *Quick Estimate* allows instant calculation of fabric consumption—which often accounts for as much as 70% of the cost of a garment—via *Modaris*, Lectra's 2D/3D product development solution.

Quick Nest facilitates access to automatic marker-making by harnessing the power of cloud-based computing and is accessed through *Diamino*, Lectra's marker-making solution.

These offers will become available progressively worldwide in 2019. They will continue to be enriched in 2019 and subsequent years.

Developing the business model for profitable, long-term growth

The 2017-2019 strategic roadmap was framed to enable Lectra to consolidate its global leadership and achieve sustained growth, while maintaining short-term profitability and continuing to focus activities on its main market sectors, i.e. fashion and apparel, automotive and furniture. Lectra will maintain its premium positioning, primarily targeting 5,000 customers and prospects across the world, compared to 3,000 in the previous roadmap.

The roadmap's five strategic objectives are:

- To accelerate revenue growth, both organic and through targeted acquisitions;
- To accentuate Lectra's technological leadership and leverage new technologies to further enhance the value of its products and services offer;
- To strengthen Lectra's competitive position and long-term relationships with customers;
- To progressively transform most of its revenues from new software licenses into recurring subscriptions by establishing a SaaS business model;
- To maintain the Group's profitability and generate a high level of free cash flow in order to self-finance internal and external development, other than potential acquisitions whose scale might require additional financing.

In addition to Industry 4.0 and SaaS offers, Lectra is counting on five accelerators to boost its growth:

- China: as the country upgrades its manufacturing plant and expands its domestic market, supported by the Chinese government's strategic "Made in China 2025" initiative;
- Leather: this is increasingly used in the automotive and furniture industries. Almost all materials are still cut by hand, but cutting processes need to be automated;
- Airbags: due to the growing number being fitted to each vehicle, and to the potential to renew installed bases for older-generation automated cutters;
- Personalization of consumer products: the entire value chain needs to be fully automated and interconnected, requiring hefty investments in cutting-edge technology;
- Finally, the digitalization of the fashion and apparel industry, which implies adopting collaborative technologies to facilitate management of collections and products.

Progress report

Progress was made on all five strategic objectives; they will continue to guide the Company's actions in 2019.

While the Company had initially planned to transform most software license revenues into SaaS revenues, it decided in early 2018 to sell its existing software using both the current approach (perpetual licenses with evolution contracts and online services) and in SaaS mode, with new software available only in SaaS mode. The Company believes that until the completion of the 2017-2019 strategic roadmap, most software sales will be in the form of perpetual licenses. The Company has therefore decided to adjust its fourth strategic objective, which has become: "to progressively launch new software offers in SaaS mode".

Unlike the previous year, the degraded macroeconomic and geopolitical environment in 2018 meant that not all the growth accelerators contributed to the Group's dynamic activity; but they are expected to drive revenue growth in 2019.

Macroeconomic assumptions

The roadmap was based on macroeconomic forecasts known on February 9, 2017. These suggest a slight pick-up in global growth over the three years. However, geopolitical tensions, new fiscal and regulatory measures following elections in 2016 and 2017—notably in the United States and Europe—and the possible calling into question of free trade agreements, as well as fresh currency turmoil, could breed uncertainty and impact businesses' investment decisions and pace throughout the period.
However conditions turn out, businesses in Lectra's different market sectors and geographic markets will have no choice but to adapt and deploy technologies compatible with Industry 4.0 in response to the new challenges linked to the four mega trends outlined previously.

Progress report

The geopolitical environment and the substantial depreciation of emerging countries' currencies led to a "wait-and-see" attitude or a freeze on investment decisions by some customers (see chapter 1).

Financial objectives

Taking into account expected macroeconomic conditions and the impact of developments pertaining to Lectra's business model over the following three years, in February 2017 the Company had initially set the following financial targets for 2017-2019 (based on like-for-like comparisons):

- 6% to 12% annual organic revenue growth, reflecting increased revenues from new systems and higher recurring revenues (SaaS, recurring contracts, consumables and parts);
- 15% annual operating margin before non-recurring items, potentially lower in the first two years reflecting the acceleration of Lectra's shift to the new SaaS business model.

These objectives accompanied maintaining a security ratio equal to or greater than 80%.
The Company indicated at the start of 2017 that these objectives would be subject to review over the three-year period in light of potential uncertainties, notably economic and political, and in the case of one or more targeted acquisitions.

Progress report

In light of the appreciation of the euro in 2017 against most currencies—particularly the US dollar and the yuan—and continuing exchange rate volatility, the Company decided at the beginning of 2018 to replace its second financial objective by: "Growth in operating margin equal to or greater than revenue growth on a like-for-like basis" for 2018 and 2019.

Increased investment in the design and development of Lectra's offers

Lectra will continue to invest actively in innovation to reinforce its competitive leadership and value proposition. R&D investments will thus rise progressively, averaging around 10% of annual revenues over the period, compared to 9.4% for the previous roadmap.
The Company believes it has the necessary resources to achieve its growth potential. Recruitment of sales and pre-sales consultants together with marketing, services, production and administrative positions, will grow more slowly than growth in revenues.

Progress report

In early 2018, Lectra decided to broaden the scope of R&D costs to encompass the increasingly diverse teams involved in the design and development of the offer.
R&D investments came to €30.8 million in 2018. They increased by 11% and came to 10.9% of revenues. 346 people (20% of the Group's workforce) are involved in the design and development of the offer, 20 more than on December 31, 2017.
In 2019, the Company will pursue its policy of substantial investments in innovation, to further extend its technological leadership and its value proposition.

Use of available cash

Lectra's business model is based on generating a high level of free cash flow and a structurally negative working capital requirement.

Lectra is determined to continue to pursue its dividend-payment policy over the roadmap's period, with an expected payout ratio of around 40% of net income (excluding non-recurring items), the remaining 60% being used to fund Lectra's growth. The aim is to achieve a steadily rising dividend per share.

The Company has sufficient cash to finance future targeted acquisitions, and in the event of a major acquisition a debt equivalent to half its shareholders' equity could be envisaged.

The Company could, exceptionally, repurchase its own shares, excluding those covered by the Liquidity Agreement, up to a maximum of €50 million, in order to tender them in exchange, or as payment, as part of external growth operations.

Progress report

Once again, the financial structure at December 31, 2018, was stronger than the year before.

In January 2018, the Company acquired Kubix Lab for €7.1 million. By combining its offerings with those of Kubix Lab, Lectra will provide its fashion customers with a revolutionary product information management platform.

In addition, thanks to the strength of its business model, the Company had a positive cash and cash equivalent, as well as a net cash position of €102.2 million at December 31, 2018.

Finally, the Company will declare a dividend in respect of fiscal year 2018 5.3% higher than the dividend in respect of fiscal year 2017 (see chapter 6).

3. CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

Revenues

Revenues amounted to €282.6 million, up 4% like-for-like and 2% at actual exchange rates.

They increased by 16% in the Americas, 8% in Asia-Pacific, decreased by 4% in Europe, and rose by 3% in the rest of the world. These regions respectively accounted for 27%, 27%, 39% (including 6% for France), and 7% of total revenues. In 2017, these regions respectively accounted for 25%, 26%, 42% (including 7% for France), and 7% of total revenues.

Revenues from new systems sales

Revenues from new systems sales (€122.7 million) increased by 2% and accounted for 43% of total revenues (44% in 2017):

- Revenues from CAD/CAM and PLM software sold in the form of perpetual licenses (€13.9 million) decreased by 14% and accounted for 5% of total revenues (6% in 2017). Their decrease is due to the growing importance of their sales in SaaS mode, which appear under revenues from recurring contracts;
- Revenues from CAD/CAM equipment and accompanying software (€93.8 million) increased by 5% and accounted for 33% of total revenues (32% in 2017);
- Training and consulting revenues (€12.7 million) declined by 2% and accounted for 4% of total revenues (5% in 2017).

Revenues from recurring contracts, consumables and parts

Recurring revenues (€159.8 million) increased by 6%. They accounted for 57% of total revenues (56% in 2017).

Revenues from recurring contracts—which represented 57% of recurring revenues and 33% of total revenues—totaled €91.4 million, a 6% increase:

- Subscriptions for CAD/CAM and PLM software sold in SaaS mode amounted to €0.5 million (following a negligible amount in 2017);
- Revenues from CAD/CAM and PLM software evolution and online services contracts (€37.6 million), stable compared to 2017, represented 13% of total revenues;
- Revenues from CAD/CAM equipment and accompanying software maintenance and online services contracts (€53.3 million), up 9%, represented 20% of total revenues.

In parallel, revenues from consumables and parts (€68.4 million) increased by 7% and represented 24% of total revenues (24% in 2017).

Order backlog

At December 31, 2018, the order backlog for new systems totaled €22.8 million. This amount includes €0.7 million for CAD/CAM and PLM software sold in SaaS mode, which have not yet started to be invoiced; the value is equivalent to the amount that would have been recorded if the corresponding orders had been made in the form of perpetual licenses.
The order backlog was down €2.2 million relative to December 31, 2017, like-for-like, and €2 million at actual exchange rates.
This backlog comprised €16.8 million in orders for new software licenses and CAD/CAM equipment, including €12.9 million for shipment in Q1 2019, and the remainder over the rest of the year, and €6 million for training and consulting, to be delivered as projects progress.

Gross profit

Gross profit totaled €203.5 million, up €7.7 million compared to 2017.
The overall gross profit margin was 72%, down 0.3 percentage points relative to 2017 (-0.8 percentage points at actual exchange rates), primarily due to changes in the sales mix.
Personnel expenses and other operating expenses incurred in the execution of service contracts or in training and consulting are not included in the cost of goods sold, but are accounted for in overhead costs.

Overhead costs

Total overhead costs were €163.3 million, up €3.4 million (+2%) compared to 2017.
The breakdown is as follows:

- €145.7 million in fixed overhead costs (+3%);
- €17.6 million in variable costs (-2%).

At actual exchange rates, total overhead costs were stable.
R&D costs (€30.8 million) are fully expensed in the period, included in overhead costs, and represented 10.9% of revenues (€27.7 million and 10% for 2017).
It should be noted that to facilitate analysis of expenditures related to the execution of the 2017-2019 roadmap, one key objective of which is the development of an Industry 4.0 offer, the Company has decided to broaden the scope of R&D costs to encompass the increasingly diverse teams involved in the design and development of the offer. The 2017 figures have been restated accordingly to allow a comparison with 2018 figures. After deducting the research tax credit, the corresponding portion of the competitiveness and employment tax credit applicable in France, and grants received, net R&D costs amounted to €21.5 million (€19.8 million in 2017).

Income from operations and net income

Income from operations was €40.2 million, an increase of €4.2 million (+11%) like-for-like and €1 million (+2%) at actual exchange rates compared to 2017.
This increase in income from operations stems from the positive impact of the growth in recurring revenues (€7.4 million) and in gross profit margins (€0.8 million). These impacts were partly offset by the increase in fixed overhead costs (€3.9 million) and by the adverse impact of currency fluctuations (€3.3 million). The increased revenues from new systems sales had a negligible impact on the change in income from operations due to a less favorable product mix.
The operating margin was 14.2%, up 0.8 percentage points like-for-like and unchanged at actual exchange rates.
Financial income and expenses represented a net charge of €0.2 million. Foreign exchange gains and losses generated a net loss of €1.1 million.
After an income tax expense of €10.2 million, net income amounted to €28.7 million, down €0.5 million (-2%) at actual exchange rates. The net tax expense for 2017 included non-recurring tax income of €0.6 million.
Net earnings per share were €0.91 on basic capital and €0.89 on diluted capital (€0.93 on basic capital and €0.90 on diluted capital in 2017).

Free cash flow

Free cash flow totaled €21.6 million, down €11.6 million compared with 2017, at actual exchange rates. This includes the receipt of €6.9 million relating to the 2014 French research tax credit (€6.3 million in 2017 relating to the 2013 French research tax credit). The research tax credit (€8.4 million) and the competitiveness and employment tax credit (€1 million) for 2018, applicable in France, were not received.

Free cash flow results from a combination of €28.8 million in cash flows provided by operating activities (including an increase in working capital requirement of €3.7 million, and an increase in other operating non-current assets of €5 million, corresponding to the part of the 2018 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA) and capital expenditures of €7.2 million.

Shareholders' equity

At December 31, 2018, consolidated shareholders' equity amounted to €170.4 million (€151.2 million at December 31, 2017).

The Company is debt free. Cash and cash equivalents, as well as net cash position, totaled €102.2 million (€98.1 million at December 31, 2017), after the disbursement of €7.1 million for the acquisition of the company Kubix Lab and the dividend payment of €12.0 million declared in respect of fiscal year 2017.

The working capital requirement was negative €11 million. It comprised the current portion (€5.7 million) of the €17.9 million receivable on the French tax administration (*Trésor public*), corresponding to the research tax credits recognized since fiscal year 2015. The portion to be repaid over one year is now carried on the balance sheet under other non-current assets (see note 9 in the notes to this report). If these tax credits cannot be deducted from the year's corporate income tax, they are reimbursed to the Company by the French tax administration in the fourth year following the year they are booked.

4. RISK FACTORS - INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

This chapter describes the main risks facing the Group with regards 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 Group manages and prevents these risks, depending on their nature.

Risk management and internal control are defined by the parent company, Lectra SA, which implements them in the parent company and subsidiaries, taking into account their specific characteristics including their size and their relationships with Lectra SA. They are fully implemented as rapidly as possible in the new subsidiaries, and generally within two years from the startup of activity of these subsidiaries.

The risk management and internal control procedures are intimately bound up with the strategy of the Group and its business model, with which they evolve. They must enable the control and management of risks within the Group while optimizing its operating performance and respecting its culture, values and ethical standards.

The Group regularly reviews its internal control and risk management procedures in order to identify areas for progress within the framework of its continuous improvement program. The overhaul and updating of certain procedures, the regular review of internal control processes, and harmonization of the financial reporting information system are all part of this program.

4.1 Risk factors

For internal control and risk management to be effective, 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 human capital, assets, environment, goals, together with its activity, financial condition, financial results, ability to achieve its goals, or reputation.

These risks are identified by means of a continuous process, taking into account the changes in the Group's environment together with the organizational changes rendered necessary by the evolving nature of its markets. The identification of risks is overseen by the Finance division and the Legal Affairs department, with input from all Group operating and corporate departments.

A comprehensive mapping and risk assessment was carried out in 2018 with methodological support from a specialized consultant. The content of this chapter takes into account the conclusions of the assessment.

The Audit Committee has reviewed the principal risks liable to have a significant adverse impact on the Company's human capital, assets, environment, goals, together with its activity, financial condition, financial results, ability to achieve its goals, or reputation.

The risk factors are divided into two main categories: risks relating to the environment in which the Group operates, and operational risks relating to its activity. Other risks not identified at the date of this report or whose occurrence is not considered likely to have a material adverse effect on the Group, may exist or could occur.

4.1.1 Risks related to the environment in which the Group operates

4.1.1.1 Macroeconomic and geopolitical environment

The solutions marketed by the Group represent a sometimes sizable investment for its customers. Decisions depend in part on the macroeconomic environment and on the state of the sectors of activity in which the customers operate. Customers 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 cycles.
The economic development of the countries where the Group operates is mixed, and for some of them their political, economic and monetary situation either has deteriorated or is at risk of doing so.
The constant shift between good and bad news, a lack of visibility, and companies' growing concerns will weigh even more heavily on their investment decisions—and hence on Group revenues and earnings—than the deteriorating macroeconomic conditions.
To take one example, the year 2018 was marked by the impact of the trade war between the United States and many other countries and regions of the world, notably Mexico, then China and Europe. The consequences of the measures announced by governments and the risk of these conflicts escalating led to a "wait-and-see" attitude by companies in all of Lectra's market sectors.
Brexit-related risk is not of material importance to the Group, the United Kingdom having accounted for less than 3% of consolidated revenues over the past three fiscal years.

The key factor protecting the Group against changes in the environment in which the Group operates is its business model, and in particular:

- a distribution of business activity over market sectors and geographic markets with cycles that are different from each other, and the very large number of customers throughout the world;
- a balanced revenue mix between revenues from new systems sales, the Company's growth driver, and revenues from recurring contracts, consumables and parts that provide a cushion in periods of difficult economic conditions.

In addition, the gross profit generated by recurring revenues alone covers more than 80% of annual fixed overhead costs (this ratio was 86% in 2018).
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, albeit with a possible time lag.
Thanks to its strong presence in the major emerging countries, which are forecast to generate major share of total global growth in the coming years, the Group is well placed to turn this into a vehicle for dynamic growth.

4.1.1.2 Market risks

Because of its international presence, foreign exchange risk is the main market risk to which the Group is exposed.

Specific foreign exchange risks

The Group is exposed to financial risks resulting from variations in certain currencies against the euro, a substantial proportion of its revenues being denominated in these different currencies.
The impact of these fluctuations on the Group's activity and financial statements is especially significant since the site where final assembly and testing of the equipment it produces and markets takes place, is located in France, and since most of its subcontractors are located in the Eurozone.
The Group is especially sensitive to variations in the US 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 regards to certain of its Chinese or international competitors whose products are manufactured in China.

In 2018, 42% of the Group's consolidated revenues, 86% of its cost of sales, and 67% of its overhead expenses were denominated in euros. These percentages were respectively 33%, 9%, and 11% for the US dollar, and 9% (a portion of revenues generated in China being invoiced in US dollars or in other currencies), 3% and 6% for the Chinese yuan. Other currencies each represented less than 3% of revenues, of the cost of sales and of overhead costs.

Currency fluctuations impact the Group in four ways:

- an impact on competitive position: the Group sells its products and services in global markets. It manufactures its equipment in France, whereas many of its competitors manufacture their equipment in China. As a result, their production costs are primarily in yuan, while those of the Group are in euros;
- an impact on markets: the Group's fashion and apparel customers prefer to relocate production abroad, and major currency fluctuations—especially between the yuan, the dollar and the euro—encourage them to adjust their sources of supply. On the other hand, automotive customers generally sell in the same currencies as the countries or regions in which they produce, so fluctuations in those currencies would have little impact on them;
- an impact on the income statement: as accounts are consolidated in euros, revenues, gross profit, and income from operations of a subsidiary conducting its business in a foreign currency are mechanically affected by exchange rate fluctuations when translated into euros;
- an impact on the balance sheet: accounts receivable by Lectra SA from its subsidiaries and customers for direct sales are recorded in original currencies. The risk relates to the variation between exchange rates at billing date and those at collection date. The impact is recognized in "Foreign exchange income (loss)" in the income statement.

Nearly all foreign-currency positions in the Company's statement of financial position are hedged by forward sales and purchases of currencies.

Sensitivity to US dollar fluctuations and other currencies is shown in note 33 to the consolidated financial statements.

Interest-rate risks

The Group no longer has any financial debt and therefore has no interest-rate risk exposure.

Liquidity risks

At December 31, 2018, the Company was debt free; had no loans or credit lines; and cash and cash equivalents (€102.2 million) represented a substantial and sufficient liquidity reserve. Therefore, the risk that the Group may have to contend with a short-term cash shortage is close to zero.

Counterparty risks

The Group's exposure to counterparty risks is very low. They arise from its cash holdings and contracts entered into within the framework of its policy on foreign exchange risk hedging.

The Group's cash surpluses consist exclusively of interest-bearing sight accounts held with blue-chip banks. The foreign exchange risk-hedging contracts are negotiated exclusively in France with the Company's three banks. The corresponding asset values are monitored regularly.

Stock market risks

The Group holds no interests in listed companies other than its own shares held under a Liquidity Agreement (see note 15.2 to the consolidated financial statements), or more generally under the new share repurchase program submitted for approval by the Shareholders' Meeting of April 30, 2019 (see chapter 10). At December 31, 2018, the Group held 0.1% of its own shares in treasury, solely in the framework of the Liquidity Agreement. Accordingly, it is not subject to stock market risk.

4.1.1.3 Risks related to the effects of climate change

Given its activity, and because of the concentration of its industrial operations at its Bordeaux-Cestas site, the Company does not consider the risks related to the effects of climate change to be material. However, the Company cannot exclude that, in some parts of the world, extreme climate events could have an impact on its customers, their activity and their investment decisions. This risk is minimized, however, by the location of the Group's activity across the entire world.

4.1.1.4 Legal and regulatory risks

The Group markets its products in more than 100 countries through a network of 32 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 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 Transfer Pricing Guidelines). Adequate documentation setting forth Group policy in this regard has been put in place.

R&D activity qualifies for the French research tax credit (*Crédit d'Impôt Recherche*), which in 2018 represented €8.4 million, or 27% of the total corresponding expense, 21% of income from operations, and 29% of net income. Any significant reduction or abrogation of this tax credit would therefore have an impact on Group income. The December 28, 2018 Budget Act n°2018-1317 for 2019 *(Loi de finances pour 2019)* has no impact on the Company's qualification for the research tax credit.

In addition, 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.

Finally, the Company is listed on Euronext Paris and is therefore subject to stock market regulations, particularly those of the *Autorité des Marchés Financiers* ("**AMF**"), the French Financial Markets Authority.

4.1.2 Economic and operational risks specific to the Company's business

4.1.2.1 Risks related to the product offering and innovation

Lectra develops and manufactures technological solutions—based on software, CAD/CAM equipment, data and services—that use new technologies and evolve rapidly.

To maintain its technological lead, the Group must demonstrate continuous creativity and a relentless search for innovation.

Particularly in the area of software, it faces competition from a growing number of companies specialized in a specific field, which sometimes makes them appear more attractive to customers. As in other sectors, there is a risk of a disruptive technology or business model unsettling its position in its markets.

Furthermore, despite their innovative nature, some new products developed by the Group could fail to align with its customers' expectations or their capacity to integrate those products into their organization and their processes.

To reduce such risks, the Group devotes very considerable amounts to product development and innovation. R&D expenses accounted for 10.9% of revenues in 2018, before deduction of the research tax credit, the share of the competitiveness and employment tax credit applicable in France, and possible grants linked to certain R&D programs. In addition, the Group actively monitors technological developments in order to identify at the earliest possible stage new technologies capable of enhancing or enriching its offering or technologies developed by third parties that it could acquire.

Finally, it collaborates with industry-leading customers in developing new products, in order to propose technological solutions that are best suited to meeting the needs of most companies in each of the market segments it addresses.

As a corollary of this policy, the Group must ensure both that its innovations are not copied and that its products do not infringe third parties' intellectual property. Moreover, it needs to protect itself against software piracy, which could curb its growth in certain countries. A team dedicated to the protection of intellectual property takes both offensive and defensive measures with regard to patents and software. Working with the Legal Affairs department, this team seeks to identify any and all illicit use of its patents pirated copies of its software and takes the necessary legal action to protect Lectra's intangible assets.

4.1.2.2 Risks related to a software offering running on a cloud infrastructure

In 2018, the Group launched new software sold in SaaS (Software-as-a-Service) mode that runs on a cloud infrastructure. The Group is therefore exposed to the risks inherent in this type of services, particularly integrity and security of customers' data, or prolonged interruption in the provision of services. These risks can have a negative impact on the Group's revenues, financial performance, and reputation.
Starting with product design and development, the specific issues inherent in cloud technology, such as security, performance, and guarantee of service, are addressed through a secure-by-design approach and by the use of appropriate tools for monitoring and security. Similarly, all necessary means are put in place to comply with local laws and regulations, notably regarding its customers' data.
To mitigate these risks, the Group has appointed an information systems security officer and adopted a policy on data and IT security and cybercrime. It commissions specialized companies to conduct regular audits of its cloud infrastructure.
Furthermore, the Group outsources its cloud infrastructure to providers with the highest level of certification for security and cyber protection.

4.1.2.3 Production risks

Maintaining Lectra's R&D and production in France has enabled the Group to meet three challenges, 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; and, finally, to boost its margins. The decision has also served to better protect its intellectual property. This risk-protection strategy was made possible only through innovation. The Group intends to keep its R&D and production in France.
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. A technical, logistic, or financial failure on the part of an important supplier could result in delays or defects in equipment shipped by the Company to its customers and thus compromise the image of the Group and adversely affect its activity and its results.
To reduce this risk to a minimum, subcontractors undergo technological, industrial, and financial scrutiny of their situation and performance, and the Company applies the principle of dual-sourcing for all parts and strategic components prior to selection. The assessment is then updated at regular intervals, the frequency depending on the criticality of the supplier's product.
Moreover, the Group may face global shortages of certain components or parts used in the manufacture or maintenance 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 rapid growth in sales of CAD/CAM equipment and shipments of consumables and parts because of the manufacturing plant's organization and operational flexibility.

4.1.2.4 Information systems security 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 Group's operations. In order to reduce these risks it has

appointed an information systems security officer and adopted a policy on data and IT security and cybercrime.
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 in real time of data and systems in two remote data centers guaranteeing business continuity in the event of a shutdown of one of the two centers. Each center has its own technical protection systems (with access control, backup generator, surge protector, redundant climate control, and a permanently monitored fire control system on constant alert), together with a double Internet connection and a private network with all subsidiaries. This plan has been subjected to regular tests under actual conditions.
The different means of communication in place (including an international private network, remote access and collaborative 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 verifies its information security processes and procedures. It regularly conducts internal audits and commissions a specialized company to assess the security of its facilities every two years.
Finally, the Group fosters awareness among its staff and trains 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 guaranteeing the separation of roles in the execution of sensitive transactions.

4.1.2.5 Risks related to data security

To address the growing importance of ensuring the security of customers' commercial data, combined with regulatory developments regarding personal data, the Company has established a department dedicated to data management and data security. Measures have been taken to ensure compliance with the General Data Protection Regulation (GDPR), enabling the Group to achieve a good level of protection and compliance, despite the commercial activity between companies and professionals entailing very limited exposure to processing of personal data. Furthermore, the Company has addressed the issue of loss of data starting with the design stage of new cloud-based offerings in order to minimize its exposure to potential risks.

4.1.2.6 Customer dependency risks

Each year, revenues from new systems, which accounted for 43% of total revenues in 2018, are generated by a very large number of customers (around 1,250 in 2018) and comprise both sales to new customers and extensions or the renewal of existing customers' installed bases. Revenues from recurring contracts, accounting for 33% of 2018 total revenues, are generated by around 5,700 customers. Finally, sales of consumables and parts, which accounted for 24% of 2018 total revenues, are generated on a large proportion of the installed base of nearly 7,200 cutters.
There is thus no material risk of dependence on customers, as no individual customer represented more than 5% of consolidated revenues over the last three-years, the 10 largest customers represented less than 20% of revenues combined, and the top 20 customers less than 27%.

4.1.2.7 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 2017-2019 strategic roadmap.
Any departure within the management team or of certain experts could affect the Group'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.
The Group is also exposed to the risk of not finding the skills required to implement its strategy and achieve its objectives within the timeframe it has set.

The risks associated with these challenges are amplified when the profiles sought are rare or when, in certain countries and regions, the job market is not favorable to employers or if Lectra is not attractive enough.

The mission of the human resources staff is to limit these risks through six main policies: to recruit new talents who will contribute to achieving the strategic roadmap; to attract and retain suitably qualified key personnel to ensure the competitiveness, growth and profitability of the Company; to motivate the Group's teams by applying principles of fair compensation based on the recognition of merit and performance; to sustain the development of skills; to organize and encourage the transfer of experience thanks to an ambitious and continuous training policy; to emphasize the high degree of agility and adaptability of the Group's organization to changes in its markets and technologies by continuously reshaping its organization.

At the same time, the Group places great importance on compliance with existing labor regulations wherever it operates. It assists 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 and the requirements for successful implementation of the 2017-2019 strategic roadmap.

The Group's activities generate risks of accidents or illnesses related to the working environment, which could affect the health or the physical integrity of its personnel. To reduce these risks, they are identified and assessed, and targeted action plans are developed to ensure that all Company activities are carried out safely, in particular in R&D and manufacturing activities as well as maintenance interventions. In France, this process is overseen by a Safety Committee and implemented by a safety engineer, with the active involvement of management, and focuses on accident prevention campaigns and training. The Company has also undertaken a program for the prevention of psychosocial risks.

Thanks to its accident prevention policy, the Company has achieved a very good record, with accident frequency and severity rates respectively four and five times below national indicators in France.

4.1.2.8 Credit risks

The Group is exposed to credit risks in the event of customer insolvency or default. This risk can negatively impact Group profit.

The Group has kept 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.

Furthermore, the Group's dependence on one or more customers with the potential significantly to impact Group profit in the event of default is limited (see paragraph 4.1.2.6 above).

4.1.3 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 the 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 reassesses this policy each year, and renegotiates or adjusts its programs so that they take into account the evolution of the Company's activity and the risks relating to that evolution. The Group works through international brokers whose network has the capacity to assist it in all its activities and throughout its different geographies. A global insurance program entered into by the parent company, Lectra SA, supplemented by local programs, provides for complete and effective coverage.

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 reviewed annually by the Company's Legal Affairs department, and 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 the Company, 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.

The Group 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 also 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. 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, comprising an annual risk-reduction action plan based on the findings of the Group insurers' experts.

4.2 Internal control and risk management procedures

4.2.1 Group internal control and risk management 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 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 objectives described in this chapter.

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. corporate, customs, labor and tax laws, etc.).

In fiscal year 2018, the Group finalized the implementation of an anticorruption compliance program as required under French Law 2016-1691 of December 9, 2016 on transparency, the fight against corruption, and modernization of the economy (the Sapin II Act). This program is described in greater detail in chapter 8.

Oversight of proper application of Executive Committee 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 the Executive Committee.

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 tangible and intangible assets (such as intellectual and industrial property, Company brands, customer relationships and corporate image, computer data, as well as Group human capital), all of which play a key role in its property, business activity and growth dynamism.

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.

Risk management

For each identified risk, a member of the Executive Committee is responsible for the treatment, prevention or management of that risk. For this purpose, he or she must validate one or more plans of action and ensure they are duly implemented.

The risk management procedures aim in particular at:

- creating and preserving the value, assets and reputation of the Company;
- ensuring secure decision-making processes and achieving the Company's goals;
- aligning the Company's actions with its core values;
- involving employees in the management of risks associated with their activity and responsibilities through shared evaluation of the main risk factors.

The cost of implementing the system's performance target for covered risks versus residual risks is adjusted to match the Group's resources, size and the complexity of its organization.

While this system provides reasonable assurance of fulfilment 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 Group companies operate, could impair its effectiveness.

4.2.2 Components of internal control

Organization, decision-making process, information systems and procedures

(a) Organization and decision-making process

The Board of Directors is responsible for setting the strategy and direction of the Company's operations, and for overseeing their implementation.

The Audit Committee discusses the internal control system 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 Chairman and Chief Executive Officer is responsible for overseeing the proper functioning of the Company's managing bodies. He is invested with the fullest powers to act on behalf of the Company in all circumstances and represents the Company in its dealings with third parties.

The Executive Committee implements the strategy and policies defined by the Board of Directors. Its members have each been delegated broad powers and are critical to the effectiveness of the internal control system. All important decisions (sales strategy, organization, investments and recruitments) relating to the operations of a region or Group subsidiary are made by a specific committee responsible for the region or subsidiary concerned. These committees, chaired by the Chairman and Chief Executive Officer, the Executive Vice President or by one of the Executive Committee members, meet regularly (usually 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 committees 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 regions and subsidiaries and of the directors of the various corporate divisions are laid down by the Chairman and Chief Executive Officer or the Executive Vice President, 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 conferred on them in the pursuit of their objectives, in monthly or quarterly reports on their activities to the Chairman and Chief Executive Officer, Executive Vice President or another member 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.

(b) Information systems

Information systems play a structurally critical role in the Group's system of internal control, and act as a key performance-tracking instrument thanks to integrated inter-company financial information, to ensure 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.

Information systems are regularly adapted to the expanded requirements of the Group in terms of the quality, relevance, timeliness and comprehensiveness of information.

These systems are contributing to the implementation of harmonized Groupwide management procedures and rules while boosting the effectiveness of controls.

(c) Procedures

A large number of procedures specify the manner in which the different processes are to be performed, together with the roles of the different persons concerned, and 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 out rules, delegations of powers, and circuits, together with the controls performed at the various stages in the sales process to verify the authenticity and content of orders, shipment and billing thereof, as well as periodic reviews of ongoing business activity by the Executive Committee.

– **Credit management**

Credit management procedures are designed to limit the risks of non-recovery and shorten account collection delays. These procedures include a preventive analysis of its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears. These means of recovery are coordinated by the credit management department in conjunction with the Legal Affairs department.

Moreover, sales of new systems to countries subject to high economic or political risks are for the most part guaranteed by irrevocable letters of credit confirmed by one of the Group's banks or by bank guarantees.

Historically, bad debts and customer defaults have been rare.

– **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 forecast or actual personnel changes are communicated to the France and International Human Resources divisions. All

recruitments and dismissals must receive the division's prior authorization.
Compensation is reviewed annually and submitted to the France and International Human Resources divisions for approval.
Finally, for all personnel whose total annual compensation exceeds €200,000 or its equivalent in foreign currencies, the Executive Committee submits the annual compensation review, together with rules for the calculation of variable compensation, to the Compensation Committee for prior approval.

– **Treasury**

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.
The Company has implemented secure means of payment. Bank reconciliation procedures are systematic and comprehensive. They entail verification of all entries in the Company's bank accounts made by the banks, together with reconciliation between treasury balances and the cash and bank accounts within the financial statements.
Bank signature authorizations for each Group entity are governed by written procedures laid down by the Executive Committee or the Group Finance division 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.

– **Currency risk**

Currency risk is borne by the parent company, Lectra SA. The Group seeks to protect its foreign-currency denominated receivables and debts as well as future cash flows, under reasonable economic conditions. Hedging decisions take into account currency risks and trends having a material impact on its financial condition and competitive situation. 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.

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 Legal Affairs department 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. 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 Executive Committee and 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 Capital department, 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.
A dedicated intellectual and industrial property team functions as part of the Legal Affairs department. It acts preventively to protect innovations and avert all risks of infringement of the Company's intellectual property rights and, more broadly, all risks associated with innovation and the protection of its intellectual and industrial property.
Currency risk is managed centrally by the Group Treasurer. Group exposure is reviewed regularly.

Continuous oversight of the internal control system and improvement of procedures

Incidents observed in the course of controls or in the findings of ex-post audits of compliance with internal control rules and procedures serve both to ensure the latter's proper functioning, and continuous improvement.
Given the nature of its business, the Group is compelled 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 4.2.1 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, during all organizational changes.
Oversight of internal controls is underpinned by a continuous improvement process. Work continued on the themes laid down last year and will be pursued in 2019:

- 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 in IT systems and resources, stricter management of access rights and controls on data integrity in information systems.

4.3 Specific procedures concerning the preparation and processing of accounting and financial information

In addition to the elements described in the foregoing paragraphs, the Company 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 markets, with particular reference to the consolidated and statutory financial statements.
The Finance division regularly identifies risks liable to impair the compilation and processing of accounting and financial information, together with the quality of this information. It communicates continuously with the Finance divisions of the Group's subsidiaries to ensure that these risks are managed. 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.

Reporting and budget procedures

The Company produces comprehensive and detailed financial reporting covering all aspects of the activities of each division of the parent company, Lectra SA, and of 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 Group Finance division management control teams. This detailed, comprehensive process includes 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 requirement, together with indicators specific to each activity and the structure of

operations. This system permits rapid identification of any deviation in actual or forecast results, and thereby minimizes the risk of error in the financial information produced.

Financial statements preparation and verification procedures

(a) Monthly financial results

The actual results of each Group entity are verified and analyzed monthly, 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 financial information properly prepared.

(b) Quarterly consolidation

Group financial statements (statement of financial position, income statement, statement of cash flows, and statement 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 for the purposes of this consolidation process. 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 Chairman and Chief Executive Officer and the Executive Vice President, 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.

5. OFF-BALANCE SHEET ITEMS

Off-balance sheet commitments relating to the Group financing

The parent company, Lectra SA, provided a total of €3.5 million at December 31, 2018 (€1.4 million at December 31, 2017) 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. 225-35 al. 4 of the French Commercial Code.

Exchange risk hedging instruments of balance sheet positions at December 31, 2018 were comprised of forward sales or purchases of foreign currencies (mainly US dollars, pounds sterling and Canadian dollars) for a net total equivalent value (sales minus purchases) of €0.6 million (€7.8 million at December 31, 2017).

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.

The Group's off-balance sheet commitments relating to operating activities at December 31, 2018 were valued using the same methodology as in previous years.

It should be noted however that since January 1, 2019 the Group has applied IFRS 16 to its consolidated financial statements. In this respect, a significant portion of off-balance sheet commitments at December 31, 2018 will be restated on January 1, 2019 according to the new standard, and will appear in the Group's consolidated statement of financial position from January 1, 2019. The notes to the consolidated financial statements describe the impacts of applying this standard for the Group.

6. APPROPRIATION OF EARNINGS

The Board of Directors has proposed to increase the dividend to €0.40 per share (+5.3%), in respect of fiscal year 2018. The gross dividend represents a payout ratio of 44% of 2018 consolidated net income and a yield of 2.2% based on the December 31, 2018 closing share price.
Previous dividends were €0.38 per share in respect of fiscal year 2017, €0.35 per share in respect of fiscal year 2016 and €0.30 per share in respect of fiscal year 2015.
Subject to approval by the Ordinary Shareholders' Meeting of April 30, 2019, the dividend will be made payable on May 7, 2019.

7. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in share capital

At December 31, 2018, the share capital totaled €31,846,757, divided into 31,846,757 shares with a par value of €1.00.
Share capital increased by €275,661 (with a total share premium of €1,572,843) due to the creation of 275,661 shares since January 1, 2018, resulting from the exercise of stock options.

Main shareholders

No crossing of statutory thresholds was reported to the Company since January 1, 2018.
At the date of publication of this report, and to the Company's knowledge:

- Daniel Harari holds 17% of the capital and voting rights;
- Kabouter Management LLC (United States) acting on behalf of investment funds that it manages, holds more than 10% (but less than 15%) of the capital and the voting rights;
- Allianz SE (Germany) through French companies it controls, and Kempen Oranje Participaties (The Netherlands) each hold more than 5% (but less than 10%) of the capital and the voting rights.

No other shareholder has reported holding more than 5% of the share capital and voting rights.

Treasury shares

At December 31, 2018, the Company held 0.1% of its own shares in treasury, solely within the framework of the Liquidity Agreement contracted with Exane BNP Paribas.

Granting of stock options - potential capital stock

The shareholders' meeting of April 27, 2018 authorized the creation of a stock option plan for a maximum of 2 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 the said meeting and in its fourteenth resolution, and automatically terminated the authority given to it by the shareholders' meeting of April 30, 2014.
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 authority to grant options under this plan will expire on June 27, 2021.
No subsidiary of the parent company, Lectra SA, has opened a stock option or stock purchase plan.

2018 stock option plan

The Board of Directors' meeting of June 12, 2018 granted, in respect of the 2018 stock option plan, a maximum of 370,591 options to 238 beneficiaries, at an exercise price of €22.25 per share, as follows:

- a maximum number of 246,058 options to 71 beneficiaries, in respect of the fulfilment of their annual performance targets set for 2018;
- 124,533 options to 170 beneficiaries, of which 83,934 options to 144 beneficiaries of a stock option plan unrelated to their performance in 2018 and 40,599 options to the 48 winners of the 2017 Lectra Worldwide Championship and 2018 Lectra Awards (25 winners of the 2017 Lectra Worldwide Championship or 2018 Lectra Awards being beneficiaries of other options also granted in 2018).

The definitive number of options at December 31, 2018 is then calculated with reference to the percentage fulfilment of targets set for each beneficiary for 2018. It also takes account of departures between the date of grant and the end of the year.

At the date of this report, the calculations of actual performance in 2018, based on the Group's consolidated financial statements, have been finalized for all the beneficiaries. In light of this performance, 31,763 options have thus been cancelled, out of the 246,058 options initially granted.
Moreover, 13,037 options have ceased to be valid due to the departure of 7 beneficiaries in 2018.
As a result, the total number of options at December 31, 2018 initially granted (370,591 options to 238 beneficiaries) has been reduced to 325,791 and the number of beneficiaries to 231.
The options representing the difference between those initially granted and those actually granted as a result of actual performance by the beneficiaries, and options corresponding to departures, are cancelled.
All of the options granted concerned Group employees. The only Company Officer *(dirigeant mandataire social)*, Daniel Harari, has held no stock options since 2000.
The right to exercise these options vests at the end of the period ended December 31, 2021 (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 a Company Officer at this date). In the event of the departure of a beneficiary before this date, all options that were granted to the beneficiary cease to be valid.
By way of exception, the right to exercise options shall be maintained in the event of the death of the beneficiary, or retirement at the statutory pensionable age in the beneficiary's country, provided the death or retirement occurs between January 1 of the year following the grant and the end of the four-year vesting period (that is, for Plans 15a, 15b, and 15c, between January 1, 2019 and December 31, 2021).
This shall apply in full for options whose exercise is contingent only on continued presence; for options whose exercise is also contingent on actual performance, it shall apply to the definitive number of options calculated with reference to the beneficiary's actual performance at December 31 of the year of the grant (that is, December 31, 2018, for the 2018 Plan).
The options are valid for a period of eight years from the date of granting.

Options outstanding at December 31, 2018

275,661 options granted under the different stock option plans outstanding at December 31, 2017 were exercised in 2018 and 65,239 options have ceased to be valid following the departure of their beneficiaries.
In total, of the 343 persons holding options at December 31, 2018, 301 employees hold 1,660,036 options, and 42 former employees still hold 17,851 options (respective figures at December 31, 2017 were: 345,295, and 50).
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. 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, 2018, the Company's capital (at par value) would increase by a total of €1,677,887, associated with a total additional paid-in capital of €24,678,992.
At December 31, 2018, 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 33,524,644, consisting of:

- capital stock: 31,846,757 shares
- stock options: 1,677,887 shares

Note 15.5 to the consolidated financial statements contains full details of the vesting conditions, exercise prices, and exercise dates and conditions of all outstanding stock options at December 31, 2018.
The Board of Directors' special report, as mandated under article L. 225-184 of the French Commercial Code, is provided in a separate document (available in French only).

Absence of bonus shares

The Company has never submitted a plan to grant bonus shares 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, 2018, was €18.18, down 28% compared to December 31, 2017 (€25.15). It reached a low of €16.72 on December 18 and a high of €26.30 on January 8, 2018.

The CAC 40, CAC All-Tradable and CAC Mid & Small indexes decreased by 11%, 12% and 22% respectively over the year.

According to Bloomberg, 17.1 million shares were traded on all platforms in 2018 (19.3 million in 2017), including 31% on Euronext Paris (48% in 2017). The 2017 figure does not include the disposal by André Harari of his entire shareholding in Lectra in June 2017.

In its press releases dated March 27, 2018, and January 8, 2019, the Company confirmed its eligibility for the "PEA-PME" scheme designed to promote investment in small and mid-cap companies. As a consequence, Lectra shares may be held in PEA-PME savings accounts, which benefit from the same tax advantages as the traditional "PEA" equity savings plan.

Transactions subject to article 19 of the Regulation (EU) n° 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse (MAR).

The following transactions relating to Lectra's shares, as referred to MAR article 19, were carried out in 2018 by the Directors on Euronext Paris:

	Date	Number	Price (€)	Value (€)
Anne Binder				
Purchase of shares	February 26, 2018	520	24.00	12,480
Bernard Jourdan				
Purchase of shares	February 15, 2018	180	21.52	3,874
Purchase of shares	February 19, 2018	80	22.40	1,792
Purchase of shares	February 20, 2018	15	23.30	350
Purchase of shares	November 6, 2018	150	19.78	2,967
Ross McInnes				
Purchase of shares	May 4, 2018	500	22.45	11,225
Nathalie Rossiensky				
Purchase of shares	February 27, 2018	500	23.85	11,925

In 2018, Édouard Macquin, Jérôme Viala, Véronique Zoccoletto and Céline Choussy, who are members of the Executive Committee, were the only senior executives (other than the Directors) having the power to make management decisions regarding the Company's development and strategy, and having a regular access to inside information concerning the Company.

Only Édouard Macquin, Jérôme Viala, and Véronique Zoccoletto have exercised stock options and sold Lectra shares on Euronext Paris as follows:

	Date	Number	Price (€)	Value (€)
Édouard Macquin				
Exercise of stock options	May 2, 2018	7,320	6.25	45,750
Sale of shares	May 2, 2018	7,320	21.35	156,305
Jérôme Viala				
Exercise of stock options	February 15, 2018	15,000	6.25	93,750
Sale of shares	February 15, 2018	15,000	21.56	323,463
Exercise of stock options	February 16, 2018	10,000	6.25	62,500
Sale of shares	February 16, 2018	10,000	21.66	216,639
Exercise of stock options	February 19, 2018	1,105	6.25	6,906
Sale of shares	February 19, 2018	1,105	22.60	24,973
Exercise of stock options	February 20, 2018	10,827	6.25	67,669
Sale of shares	February 20, 2018	10,827	22.63	245,037
Exercise of stock options	March 7, 2018	20,000	6.25	125,000
Sale of shares	March 9, 2018	4,083	23.31	95,184
Sale of shares	March 12, 2018	5,917	23.32	137,966
Exercise of stock options	August 2, 2018	1,002	8.50	8,517
Sale of shares	August 2, 2018	1,002	23.20	23,250
Exercise of stock options	August 30, 2018	500	8.50	4,250
Sale of shares	August 30, 2018	500	23.00	11,500
Exercise of stock options	September 4, 2018	93	8.50	791
Sale of shares	September 4, 2018	93	23.00	2,139
Véronique Zoccoletto				
Exercise of stock options	May 14, 2018	9,000	6.25	56,250
Sale of shares	May 14, 2018	9,000	23.09	207,849
Exercise of stock options	May 22, 2018	14,949	2.50	37,373

Compliance with the General Regulation of the *Autorité des Marchés Financiers* and the Transparency Directive - regulated disclosure

The Company complies with the financial disclosure obligations of companies listed on Euronext Paris, 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 as supplemented by (i) AMF Position-Recommendation 2016-05 Guide to periodic disclosures by listed companies, and (ii) Position-Recommendation 2016-08 Guide to ongoing disclosure and management of inside information, both of which became applicable on October 26, 2016. 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. The Company uses the services of Nasdaq Solutions International Limited, a professional information provider approved by the AMF that satisfies the criteria laid down in the General Regulation, to publish and file information with the AMF. At the same time, regulated information is published on the Company's website.

8. NON-FINANCIAL STATEMENT

The non-financial statement is prepared in compliance with order 2017-1180 of July 19, 2017 and decree 2017-1265 of August 9, 2017. It is appended to the *Rapport de Gestion du Conseil d'Administration* and is available, in French only, on the Company's website, lectra.com.
The Company appointed KPMG to audit the information contained in the non-financial statement in respect of fiscal year 2018.
This chapter provides a summary of the French version of the non-financial statement.

Headcount

The Group's active headcount [1] at December 31, 2018 was 1,711 employees (1,678 at December 31, 2017). The Group's total headcount was 1,741 employees (registered workforce). Unless otherwise specified, the information and analyses that follow in this statement refer to the active headcount.
97% of employees in the Group are on permanent contracts.

Distribution of employees by gender, age and geographic region

At December 31, 2018, women represented 36% of the Group's headcount; this percentage was up one point compared to 2017. The distribution of employees by age group is as follows: 11% age 29 or younger, 29% age 30 to 39, 30% age 40 to 49, 27% age 50 to 59, and 3% over 60.

Compensation

The Group payroll came to €114.8 million in 2018, a 1.9% increase compared to 2017.
Consistent with its strategy, ethics and values, Lectra has put in place a fair compensation policy that seeks primarily to reward merit and performance.
The annual salary review policy takes into account the level of inflation in the country, the situation in the labor market, and compliance with the laws and regulations in force in each country, together with individual and/or collective performance.
For certain employees, the annual compensation comprises a fixed component and a variable component. In this case, the objectives and the rules for calculation of the variable component are set at the start of each year and are directly aligned with the strategy and objectives of the Group, the local priorities, and the nature of the missions assigned to each employee. In addition to compensation there may be benefits in kind connected with the employee's occupation, such as the use of a car or coverage of expatriation-related costs.
The Group also has a long-standing policy of selective employee participation in its capital through the granting of stock options as decided by the Board of Directors following the recommendations of the Compensation Committee.

(1) Number of employees on permanent contracts and fixed-term contracts, not counting employees who are on long-term leave or who are not working during their notice period.

Health and safety in the workplace

Lectra places great emphasis on strict compliance with local health and safety laws and regulations in each of its subsidiaries. Regular audits are conducted to guarantee its workers a safe and healthy working environment, and local policy is adjusted accordingly when necessary.

Training and integration

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.

Lectra invests heavily in training for its employees, whose expertise is one of the Group's key strengths. The creation, in 2005, of Lectra Academy, the Group's worldwide in-house training center, in Bordeaux-Cestas (France) was a major initiative, which enabled the Company to put in place a far-reaching permanent program. The three main 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, and to transmit Lectra's strong corporate culture in all its entities.

In 2018, a Sales Enablement team was established to strengthen the existing system by providing targeted high-level training for employees active in sales, marketing, and consulting.

Employees worldwide enjoy access to a broad array of training programs, at Bordeaux-Cestas, in the subsidiaries or by e-learning.

Lectra Academy organizes an induction seminar, "Lectra Together", for all new recruits on arrival in the Group. The seminar lasts between two and five days, depending on the profiles concerned, and managers provide follow-up coaching when participants return from training.

The Group also continues to provide technical training for its other teams—R&D especially—in new technologies and methodologies, in Lectra's offer, and in its customers' businesses.

In 2018, the Group invested close to €3.5 million in training (identical to 2017), representing 3% of the Group's payroll (3.1% in 2017). In total, nearly 37,700 hours of Lectra Academy training were provided to 1,543 employees, representing 89% of the total headcount (64% in 2017).

Equal treatment

Measures taken for equality between women and men

The Group is committed to full equal treatment in hiring and career management, and focuses exclusively on the skills, experience and performance of candidates or employees in hiring and promotion decisions.

The Company has an annual plan to promote gender equality in the workplace based on clear, precise, operational criteria that determines the improvement objectives for the coming year, the actions required to achieve them, and an assessment of their cost.

An analysis of the 100 highest compensation packages in the Group, excluding the Company Officer *(dirigeant mandataire social)*, indicates that average compensation is 1.9% higher for women than for men, while the average seniority of these women in the Group is 3.8 years lower.

Anti-discrimination policy

Diversity has been a fundamental feature of Company practice since its very beginning and extends well beyond barring discrimination of any sort. Lectra rejects all forms 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.

Lectra's teams operate in 38 countries and represent more than 50 nationalities.

Promoting and compliance with the fundamental conventions of the International Labour Organization (ILO)

Consistent with its ethics, core values and Code of conduct, the Group strives to apply all the fundamental conventions of the ILO, together with the applicable regulations in each country, and it demands that employees strictly comply with its internal procedures and with these regulations. It takes particular care to ensure that all employees apply clear and transparent management principles in the conduct of its business. Similarly, it urges its

subcontractors and suppliers to uphold the principles of eliminating illegal, forced or child labor, and to enforce compliance with applicable legal provisions in regard to the minimum wage, health and safety.
The Group has never been convicted of corruption, non-respect for freedom of association or the right to collective bargaining. Nor has it ever been convicted of using illegal, forced or compulsory child labor, or of discriminatory hiring practices. The Group is not aware of any violation by its subcontractors of the fundamental conventions of the ILO.

Implementation of a general policy for sustainable development

Stakeholders associated with the Company's activities, notably its customers, shareholders, suppliers and employees, attach growing importance to issues relating to sustainable development. More specifically, customers and shareholders are attentive to the Company's performance and practices and express this by submitting questionnaires or independent assessments to Lectra.
Furthermore, any decline in environmental performance would impact the image perceived by investors and their willingness to invest in the Company.
The Group has built its environmental policy around two main areas:

- Eco-design of its CAD/CAM equipment that aims to reduce the environmental impact of CAD/CAM equipment in the design, manufacture, and shipment phases, then while in use by final customers, and at the end of its service life.
  More specifically, the performance of CAD/CAM equipment enables Lectra customers to achieve energy savings and reduce consumption of fabric and leather; and
- investment in custom infrastructures to improve energy efficiency and waste management.
  In particular, all site renovations provide for implementation of best practices for energy efficiency. In addition, the Company continually improves selective sorting and waste recovery on its main Bordeaux-Cestas site.

The Company also manages the risk related to the implementation of its environmental policy through annual interviews with the management in each department. Managers report on the year's activity and their action plan for the coming year.
The Company attaches great importance to continuing to integrate Corporate Social Responsibility (CSR) into its strategy and therefore participated in a survey conducted by the rating agency Gaïa Rating that examined environmental, social and governance (ESG) information. The review of Lectra's practices in 2017 showed that the Company is ahead of its peers:

- Lectra ranked 21st out of 78 companies in the category of companies with revenues of €150 to €500 million; and
- 73rd out of 230 in the global ranking of listed SMEs and mid-tier companies.

Since September 2018, the Company has assigned responsibility for managing environmental actions to the Facility Management Director.

Ethics and anti-corruption measures

Trust and integrity, supported by rigorous standards in ethics and compliance, have always been at the heart of Lectra's commitments to innovation and sustainable growth.
Recognizing that part of its activities take place in countries identified by Transparency International, the non-governmental organization, as being at risk, Lectra places great importance on ethical behavior in the conduct of its business in those countries, and ensures that each employee is aware of these issues.
Lectra has launched a Group-wide compliance program in accordance with French law 2016-1691 of December 9, 2016 on transparency, the fight against corruption, and modernization of the economy (the "Sapin II" Act). The program is applicable to the Group's employees and outside providers; it is the first stage in a comprehensive initiative that aims to cover societal issues more broadly and to incorporate them in the Company's strategy and its day-to-day operations.
Lectra's commitment in the area of business ethics is evidenced, for instance, in its formal Code of conduct, which was distributed to all employees in 2018, and the introduction of a Whistleblowing Procedure.
The Code of conduct formally sets out the Group's policy in the area of fighting corruption and influence peddling.

It includes information to ensure practical implementation of the system, as well as examples of possible cases; it serves as a reference for all employees in the Group to guide their behavior and interactions in their activities. It also sets out the Whistleblowing Procedure and how it operates.
The Whistleblowing Procedure meets the requirement that companies must enable all employees to report illegal conduct.

Actions to promote fundamental rights

The Group seeks to uphold the fundamental principles of human rights in everything it does, but it does not take part in the work of national or international institutions specifically involved in their defense.
The Group applies and promotes the recommendations of the fundamental conventions of the ILO, on freedom of association and recognition of the right to collective bargaining, the elimination of discrimination in employment and occupation (with respect to recruitment, career development and the termination of business relations), the abolition of forced or compulsory labor, and the effective abolition of child labor.
Some strategic choices, including the strict selection of suppliers, are part of the Group's commitment to base its activities on ethical practices, with respect for human rights and the prohibition of child labor.

Subcontracting and suppliers

The Group's activities rely on partnerships with an international network of close to a thousand suppliers and subcontractors.
The Company subcontracts the production of sub-assemblies, but assembles and tests them itself at the Bordeaux-Cestas industrial facilities. The Company wishes to associate suppliers with its growth on a long-term basis, and to manage the potential risks to which they can expose it to.
The long-standing responsible purchasing policy is enriched each year; it explicitly includes social and environmental requirements in specifications and calls for tender, and in selection criteria for proposals from suppliers and subcontractors.
Concerned with identifying and managing the risks arising from the use of subcontracting, the Group has a long-standing policy of responsible purchasing, notably through the promotion of local subcontracting; streamlining its logistics to encourage groupage, short distribution channels and minimized packaging materials; instituting a responsible procurement charter between the Company, its suppliers and subcontractors; and implementing contracts spelling out its social and environmental requirements.
The Company's purchasing processes are designed to strike a fair balance between competitiveness, quality of supplies purchases, and sustainability of its subcontractors and suppliers. The Company 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.

9. RESEARCH AND DEVELOPMENT

The Group has continued to invest significantly in research and development.
At December 31, 2018, the R&D headcount was 346 persons (326 at December 31, 2017), including 328 in France, 12 in Spain and 6 in Italy. 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.
In addition, the Group is investing in advanced research and studies, drawing on areas of excellence across an array of laboratories, universities, schools, competitiveness clusters and technology centers. Partnership contracts with various actors are now in progress, accelerating and reinforcing the Company's innovative capabilities.
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 the portion of the competitiveness and employment tax credit applicable in France, these expenditures totaled €30.8 million in 2018, or 10.9% of revenues

(€27.7 million and 10% in 2017). Net R&D expense, after deducting the subsidies and tax credits, amounted to €21.5 million (€19.8 million in 2017). These substantial investments (€208 million in the aggregate 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. SHARE REPURCHASE PROGRAMS

The shareholders' meeting of April 27, 2018 granted authority to the Company to trade in its own shares for a period of eighteen (18) months from the date of the said meeting, for the following purpose:

- to maintain a liquid market in the Company's shares, via an authorized investment services provider acting within the framework of a Liquidity Agreement in compliance with the *Association française des entreprises d'investissement's* (AFEI) Charter of Ethics, or any other Charter of Ethics recognized by the AMF;
- to retain or use all or part of the repurchased shares as a means of payment or exchange or otherwise within the framework of external growth transactions, in keeping with applicable regulations;
- to grant shares, notably to present and future officers or employees of the Company and/or the Group, or to some of them, and in particular within the framework of articles L. 225-179 et seq. and L. 225-197-1 et seq. of the French Commercial Code;
- to deliver Company shares on the occasion of the exercise of rights attached to securities entailing an entitlement by whatever means to the Company's shares;
- to cancel shares by reduction of the capital stock.

10.1 Transactions by the Company on its own shares in 2018

Liquidity Agreement

The Group has contracted with Exane BNP Paribas to act as liquidity provider under a Liquidity Agreement, signed in accordance with regulations and market practices recognized by the AMF.

Under this Liquidity Agreement, from January 1 to December 31, 2018, the Company purchased 257,271 shares and sold 238,782 shares at an average price of €21.16 and €21.40 respectively.
Consequently, at December 31, 2018, the Company held 30,779 Lectra shares (or 0.1% of share capital), at a par value of €1.00, with an average purchase price of €18.20, entirely under the Liquidity Agreement, together with €0.4 million in cash and cash equivalents.
On December 27, 2018, Lectra and Exane BNP Paribas entered into a new liquidity contract further to AMF decision n° 2018-01 of July 2, 2018 establishing an accepted market practice for liquidity contracts on shares, which came into effect on January 1, 2019. The new contract took effect on January 2, 2019, and replaced the previous contract entered into with Exane BNP Paribas on May 11, 2012.

Share repurchases

The Company did not repurchase any shares, apart from those purchased under the Liquidity Agreement.

Share cancellations

The Company did not cancel any shares.

10.2 Renewal of the share repurchase program

The Board of Directors has proposed to the Ordinary Shareholders' Meeting of April 30, 2019 to renew the share repurchase program pursuant to article L. 225-209 of the French Commercial Code, for a period of twelve (12) months from the date of the said meeting.
The aims of this program are:

- to maintain a liquid market in the Company's shares, via an authorized investment services provider acting within the framework of a Liquidity Agreement in compliance with regulations and market practices recognized by the AMF;
- to retain or use all or part of the repurchased shares as a means of payment or exchange or otherwise within the framework of external growth transactions, in keeping with applicable regulations;
- to grant shares, notably to present and future officers or employees of the Company and/or the

Lectra Group, or to some of them, and in particular within the framework of articles L. 225-179 et seq. and L. 225-197-1 et seq. of the French Commercial Code; and

- to deliver Company shares on the occasion of the exercise of rights attached to securities entailing an entitlement by whatever means to the Company's shares.

It is further proposed that this program also serve to authorize the Company to engage in all market practices that may come to be accepted by the AMF and, more generally, to engage in any other transaction compliant with current regulations. The Company would notify its shareholders by means of a press release if it were to avail itself of this authority.

Under the tenth resolution before the Ordinary Shareholders' Meeting of April 30, 2019 authorizing this new repurchase program, from the time of filing of an outside public tender offer for Company shares, and until expiration of the offer period, the Board of Directors is barred from implementing this program, nor may the Company continue its execution without prior authorization by the shareholders' meeting.

The Company will comply with 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

This program will concern a variable number of shares such that the Company does not purchase or, having regard to its existing holding of treasury shares, come to hold a number of treasury shares exceeding 10% of the capital stock (representing 3,184,675 shares at the date of this report), adjusted for transactions that may affect it subsequent to the date of the Ordinary Shareholders' Meeting of April 30, 2019, where appropriate.

Characteristics of shares concerned by the repurchase program

Lectra shares are listed on compartment B on Euronext Paris (ISIN code: FR0000065484).

The Board of Directors will provide shareholders with the information required in article L. 225-211 of the French Commercial Code, in its reports to the shareholders' meeting.

The Board of Directors has proposed the following terms:

- maximum purchase price: €32 per share;
- gross maximum amount to be utilized in the stock repurchase program: €50 million.

If the shareholders approve this resolution, the new program will replace the one authorized by the shareholders' meeting of April 27, 2018.

It will have a duration of twelve (12) months from the date of the shareholders' meeting of April 29, 2020.

As a reminder, pursuant to article L. 225-209 of the French Commercial Code, the extraordinary shareholders' meeting of April 27, 2018 granted authority to the Board of Directors to cancel treasury shares held, or that may come to be held by the Company as a result of repurchases made, and to reduce the capital stock in proportion to the cancellations made, up to a threshold of 10% of the capital stock. This authority was granted for a period of twenty-four (24) months, i.e. until April 28, 2020 inclusive.

11. POST-CLOSING EVENTS

On January 15, 2019, the Company announced the strengthening of its Executive Committee to accelerate the implementation of its Lectra 4.0 strategy, initiated in early 2017, with the objective of becoming an indispensable player in Industry 4.0 *(see press release dated January 15, 2019)*.

12. FINANCIAL CALENDAR

The annual Shareholders' Meeting will take place on April 30, 2019.

First, second, and third quarter earnings for 2019 will be published on April 29, July 29, and October 30, respectively, after the close of trading on Euronext Paris. Full-year earnings for 2019 will be published on February 11, 2020.

13. BUSINESS TRENDS AND OUTLOOK

2019 outlook

The Company entered 2019 with a particularly robust balance sheet and operating fundamentals, a new organization of its subsidiaries, and a strengthened Executive Committee.

Lectra significantly enhanced its products and services offer in 2018, with new innovative solutions to empower its customers in implementing the principles of Industry 4.0, which will be progressively rolled out worldwide in 2019.

An uncertain geopolitical environment

Still, the year ahead is fraught with unpredictability in light of persisting uncertainty regarding geopolitical factors and the threat of protectionism, amid growing fears of an economic slowdown. These considerations could continue to weigh on businesses' investment decisions.

Impact of exchange rates

The Company has based its 2019 objectives on the exchange rates in effect at year-end 2018, notably $1.15/€1.

When converting 2018 results using the exchange rates retained for 2019, revenues are mechanically increased by €1.6 million and income from operations by €1.2 million, relative to the published results.

Sensitivity to fluctuations in the value of the US dollar is covered in note 33 of the notes to this report.

Growing impact of sales of certain software in SaaS mode

The Company has decided to sell its new software exclusively in SaaS mode. If the positive response to the new offer is confirmed, the volume of software sold in SaaS mode should show strong growth in 2019. This change in sales model will have a positive impact on the Company's revenues and income from operations in the medium term. However, it has a negative impact on the Company's stated objectives for 2019, which are 1 to 2 percentage points lower for revenue growth, and 9 to 12 percentage points lower for income from operations, than the comparable figures if all software were sold as perpetual licenses along with their associated maintenance contracts.

Financial objectives

In light of the above, the Company has set the objective of achieving revenue growth of 3% to 7% in 2019, like-for-like. Growth in income from operations before non-recurring items would then be down 4% in the low assumption for revenue growth, flat in the median assumption, and up 4% in the high assumption.

Without the impact of growing sales of software on a subscription basis, the objective for revenue growth would have been stated as 4% to 8% and the objective for growth in income from operations before non-recurring items would have been 5% to 16%.

With the exchange rates retained for 2019, the growth in revenues and in income from operations before non-recurring items, at actual exchange rates, would be 0.6 and 3 points higher, respectively, than the like-for-like figures.

The Company remains confident in its medium-term growth prospects

More than ever, the entire Company is focused on growing its sales activity. The new products launched in 2018 and those that will be released in subsequent years should make an ever-increasing contribution to this growth.

Bolstered by the strength of its business model and a new roadmap fully geared to the demands of Industry 4.0, the Company remains confident in its growth prospects for the medium term.

The Board of Directors
February 26, 2019

Company certification of the Annual Financial Report

"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 26, 2019

Daniel Harari	Olivier du Chesnay
Chairman and Chief Executive Officer	Chief Financial Officer

Report on Corporate Governance

Dear Shareholders,

This Report on Corporate Governance was prepared by the Board of Directors, in accordance with the provisions of articles L. 225-37 et seq. of the French Commercial Code. It was prepared by the Board of Directors in coordination with, for the relevant sections, the Lead Director, the independent Directors, the Legal Affairs department, the Finance division, and more generally, whenever required, with those concerned by the information contained herein, for the sake of accuracy and completeness.
This report was submitted to and discussed by the Audit Committee and approved by the Board of Directors at their meetings of February 26, 2019.
Its aims are:

- to report on the manner in which the Board of Directors' proceedings are prepared and organized;
- to describe the principles and criteria established by the Board of Directors regarding the compensation and benefits of the Chairman and Chief Executive Officer, the only Company Officer *(dirigeant mandataire social)* of the Company;
- when a company voluntarily refers to a code of corporate governance framed by organizations representative of corporations, to specify those provisions it has chosen not to apply and give its reasons for doing so ("comply or explain"); and
- to report on the application of the principle of balanced representation of men and women on the Board of Directors.

The Company aims to apply best practices in corporate governance. In this respect, the Company refers to the AFEP-MEDEF Corporate Governance Code of Listed Companies published by the *Association Française des Entreprises Privées* (AFEP) and the *Mouvement des Entreprises de France* (MEDEF), the most recent version of which was published June 21, 2018, hereinafter referred to as the AFEP-MEDEF Code and available for consultation at www.medef.com.
The Company is committed to implementing the recommendations of the AFEP-MEDEF Code or, should any of them be deemed inappropriate with respect to its organization and its specific circumstances, to explain the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code.
The Internal Rules and Procedures of the Board of Directors, which set out, in addition to the applicable legal and regulatory provisions and the Company's by-laws, the procedures of the Board of Directors and its committees, as well as the duties and resources of the Lead Director, were updated on February 26, 2019, in order to reflect the successive revisions of the AFEP-MEDEF Code.
The Internal Rules and Procedures of the Board of Directors can be consulted in full on the Company website, in French and English.

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

1.1 Role, powers and operation of the Board of Directors

The Board of Directors is responsible for determining the strategic orientations of the Company's business and oversees their execution. It examines and decides on important operations, possibly after review by the Strategic Committee.
Subject to powers expressly invested in the shareholders' meetings and within the limits of the corporate purpose, the Board of Directors may consider all issues pertaining to the proper functioning of the Company and decides on all matters concerning it.
The Board of Directors conducts an analysis of the major financial operations, economic matters or questions relating to human capital, and determines the strategic orientations of the Group. It appoints the Company Officers *(dirigeants mandataires sociaux)* entrusted with the management of the Company and chooses the form of organization (separation of the positions of Chairman and of Chief Executive Officer, or combination of these offices), and oversees their management. As defined in the preamble and article 3.2 of the AFEP-MEDEF Code, the Company Officers consist of (i) the Chairman of the Board of Directors (Non-Executive Officer) and the Chief Executive Officer in the case of a separation of the roles or (ii) the Chairman and Chief Executive Officer in the case of a combination of the roles.

Under the Internal Rules and Procedures of the Board of Directors, the following items require prior approval by the Board of Directors:

- all significant transactions external to the Group's stated strategy or liable to have a significant impact on its financial results, balance sheet structure, or risk profile;
- all creations of subsidiaries, all acquisitions of companies or activities, together with all disposals of a subsidiary, activity or item of Group intellectual property; and
- all financial or stock market transactions having an immediate or future impact on the share capital, together with all borrowings exceeding €5 million.

The Board of Directors decides on the principles and criteria for compensation of the Company Officers, which will be submitted for approval by the shareholders' meeting. This mission is conducted with support from, but is not delegated to, the Compensation Committee.

The Board of Directors formulates the Company's policy on financial disclosure and ensures the quality of the information provided to shareholders and to the financial markets.

The Board of Directors performs such controls and verifications as it deems appropriate. It is informed of all important events affecting the life of the Company. Members of the Board of Directors are informed about market developments, the competitive environment and the most important issues facing the Company, including in the field of corporate social and environmental responsibility.

The Board of Directors ensures that shareholders and investors receive relevant balanced and instructive information about the strategy, development model, considerations regarding non-financial issues that are of significance to the corporation, and its long-term outlook.

Combination of the roles of Chairman and Chief Executive Officer

Following the resignation of André Harari as Chairman of the Board of Directors, the Board of Directors decided on July 27, 2017 to end the separation of the roles of Chairman on the one hand, and Chief Executive Officer on the other, and to appoint Daniel Harari to serve as Chairman and Chief Executive Officer, the position he previously held from 1991 to 2001. It is specified that the Chairman and Chief Executive Officer acts, depending on the circumstance, in his respective capacities as Chairman of the Board of Directors or as Chief Executive Officer of the Company. The Board of Directors considered that recombining the roles was the most appropriate form of governance in light of the organization, the size, the challenges of the new strategic roadmap, and the experience of the Chairman and Chief Executive Officer, it being noted that 80% of the members of the Board of Directors are independent Directors. In addition, the Board of Directors considers that this combination of roles permits greater responsiveness and efficiency in actual governance and in executing the Company's strategy. The independent Directors also consider that this combination of roles is satisfactory and should be continued.

Following this combination of roles, the mission of monitoring and managing possible conflicts of interest in connection with the Company Officer is conferred upon Bernard Jourdan, the independent Director, who was named Lead Director retroactively with effect from January 1, 2017, by the Board of Directors at its meeting on February 9, 2017. The powers of the Lead Director are described in greater detail in paragraph 1.4 below.

The Chairman and Chief Executive Officer exercises his powers within the limits of the corporate purpose and subject to the powers explicitly attributed by law to the shareholders' meetings and to the Board of Directors. The Board of Directors may place limits on the powers of the Chairman and Chief Executive Officer; however, such limitations are not enforceable against third parties. These limits are set out in article 1.2 of the Internal Rules and Procedures of the Board of Directors.

Missions of the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer, elected by the Board of Directors, has the following duties and responsibilities:

- he organizes and directs the work of the Board of Directors, reports to the shareholders' meeting, and oversees the proper functioning of the Company's managing bodies;
- he acts as guardian of corporate governance, of abidance by the Board of Directors and its

members for the rules of conduct, together with the demands of good faith and transparency in the Company's financial and corporate publications;
- he oversees the proper functioning of the Company's managing bodies and especially the committees of the Board of Directors;
- he chairs and runs the Strategic Committee;
- he represents the Board of Directors and, unless otherwise decided by the latter, has sole authority to act and speak in its name; and
- he oversees the general management of the Company. In this capacity, he is invested with full powers to act in the Company's name in all circumstances and represent it in its dealings with third parties, and he assumes all operational and executive responsibilities; and all teams in the Group report to him.

The Chairman and Chief Executive Officer chairs the Executive Committee and decides its composition. He ensures abidance by and promotes Lectra's core values and ethical standards in the conduct of its business. He may be assisted by one or more Deputy Chief Executive Officers *(Directeurs Généraux Délégués)*.

In 2018, the Executive Committee had five members:
- Daniel Harari, Chairman and Chief Executive Officer, Chairman of the Executive Committee;
- Jérôme Viala, Executive Vice President;
- Céline Choussy, Chief Marketing and Communications Officer;
- Édouard Macquin, Chief Sales Officer; and
- Véronique Zoccoletto, Chief Transformation Officer.

Since January 1, 2019, in order to enable successful execution of the third year of the Company's 2017-2019 strategic roadmap, reinforce its global leadership, and prepare to accelerate the implementation of the Lectra 4.0 strategy, the Executive Committee now has eleven members:
- Daniel Harari, Chairman and Chief Executive Officer, Chairman of the Executive Committee;
- Jérôme Viala, Executive Vice President, Vice Chairman of the Executive Committee;
- Maximilien Abadie, Chief Strategy Officer;
- Olivier du Chesnay, Chief Financial Officer;
- Céline Choussy, Chief Marketing & Communications Officer;
- Laurence Jacquot, Chief Customer Success Officer;
- Véronique Zoccoletto, Chief Transformation Officer;
- Fabio Canali, President, Southern Europe & North Africa;
- Javier Garcia, President, Asia-Pacific;
- Édouard Macquin, President, Americas; and
- Holger Max-Lang, President, Northern & Eastern Europe, Middle East.

Each member is further invested with specific missions pertaining to execution of the strategic roadmap.

1.2 Membership of the Board of Directors

The Board of Directors has five members:
- Daniel Harari, Chairman and Chief Executive Officer;
- Bernard Jourdan (independent Director and Lead Director);
- Anne Binder (independent Director);
- Ross McInnes (independent Director); and
- Nathalie Rossiensky (independent Director).

Independent Directors account for 80% of the membership of the Board of Directors; this is higher than the 50% recommended by article 8.3 of the AFEP-MEDEF Code, in the absence of a controlling shareholder.

The ordinary shareholders' meeting of April 29, 2016 had reelected André Harari, Daniel Harari, Anne Binder and Bernard Jourdan to the Board of Directors, and also elected Nathalie Rossiensky to the Board of Directors for a four-year period to expire at the end of the ordinary shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2019.

The Board of Directors named Bernard Jourdan as Lead Director (see paragraph 1.4 below) at its meeting of February 9, 2017.

The Board of Directors appointed Ross McInnes as Director at its meeting of October 30, 2017, replacing André Harari, with effect from January 1, 2018, for the remainder of his term, that is, until the ordinary shareholders' meeting called to approve the financial statements of the fiscal year ending December 31, 2019. The appointment of Ross McInnes was subsequently ratified by the ordinary shareholders' meeting of April 27, 2018.

Finally, article 7 of the AFEP-MEDEF Code refers to articles L. 225-23 and L. 225-27-1 of the French

Commercial Code, which stipulate that (i) if the employees of the Company or of companies affiliated to it as per article L. 225-180 of the French Commercial Code hold more than 3% of the Company's capital, and/or (ii) if the Company employs at least 1,000 full-time employees in France, or at least 5,000 worldwide, including its direct and indirect subsidiaries, for at least two fiscal years, then the Board of Directors must include (i) Directors representing the employee shareholders and who are elected from among them, and/or (ii) Directors representing the employees. The Company is not subject to these requirements inasmuch as it satisfies neither of these conditions.

The members of the Board of Directors of Lectra

As of February 26, 2019, the Board of Directors of Lectra is composed of the following members:

DANIEL HARARI

Chairman and Chief Executive Officer
Chairman of the Strategic Committee

Age 64

Nationality: French

Director since: 1991

Term of office began: April 29, 2016

Term of office ends: at end of the shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2019

Number Lectra shares held: 5,507,560

Biography – Experience and expertise

Daniel Harari is a graduate of École Polytechnique and holds an MBA from HEC in Paris. He began his career as Vice President of Société d'Études et de Gestion Financière Meeschaert, an asset management company (Paris, 1980-1983). He was then Chairman and Chief Executive Officer of La Solution Informatique (Paris, 1984-1990), a PC distribution and services company, and of Interleaf France (1986-1989), a subsidiary of the US software publisher, both of which he founded.

In 1986, Daniel Harari became Chief Executive Officer of Compagnie Financière du Scribe (Paris), a venture capital firm specialized in technology companies, where he was, together with his brother André Harari, the main shareholder until its merger with Lectra on April 30, 1998.

He became Chairman and Chief Executive Officer of Lectra in 1991, following its takeover by Compagnie Financière du Scribe at the end of 1990.

Daniel Harari holds no directorship outside the Company.

Daniel Harari has been Chief Executive Officer of Lectra since May 3, 2002, and returned to the combined position of Chairman and Chief Executive Officer July 27, 2017.

Other current positions and directorships

None

Directorships expired in the past five years, within Lectra Group

- Chairman of the Board of Directors, Lectra Sistemas Española SAU (Spain);
- Chairman of the Board of Directors, Lectra Italia SpA (Italy);
- President, Lectra Systems (Shanghai) Co. Ltd. (China); and
- Director, Lectra USA Inc. (United States).

BERNARD JOURDAN

Independent Director and Lead Director
Chairman of the Audit Committee and the Compensation Committee
Member of the Strategic Committee

Age 74

Nationality: French

Director since:
December 21, 2011

Term of office began:
April 29, 2016

Term of office ends:
at end of the shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2019

Number Lectra shares held: 1,503

Biography – Experience and expertise

Bernard Jourdan holds a Master of Science in Management from the Sloan School of Management, Massachusetts Institute of Technology (USA), is a graduate of École 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. His career began as a consultant with Arthur Andersen Paris, followed by positions as associate manager at First National Bank of Chicago, and project manager at the Institut de Développement Industriel (Paris).

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, a member of the Board of Directors, Executive Vice President and Chief Executive Officer of subsidiaries of the group in France from 1987 to 1990, and Chief Operating Officer of the US division from 1981 to 1987.

From 1990 to 1995, he was Executive Vice President of Schindler France, and then, from 1995 to 2005, he was a member of the Board of Directors and Executive Vice President of the SPIE Group, in charge of strategy and development.

Bernard Jourdan was appointed Lead Director of Lectra on February 9, 2017 with retroactive effect from January 1, 2017.

Other current positions and directorships

None

Directorships expired in the past five years, outside Lectra Group

None

ANNE BINDER

Independent Director

Member of the Audit Committee, the Compensation Committee and the Strategic Committee

Age 68

Nationality: French

Director since:
October 27, 2011

Term of office began:
April 29, 2016

Term of office ends:
at end of the shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2019

Number Lectra shares held: 1,500

Biography – Experience and expertise

Anne Binder is a graduate of the Institut d'Études Politiques of Paris. She also holds a BA from the Paris faculty of law and a Master in Business Administration from INSEAD (France). She began her career as a consultant with Boston Consulting Group (Paris) and then as associate manager at Lazard Frères Bank.

She was then an associate manager for Générale Occidentale (bank and industrial holding company) from 1978 to 1982, and from 1983 to 1990, participated in the creation and was General Manager of the Pallas group (bank and investment, Paris).

From 1990 to 1993, she was the Chief Executive Officer of the holding company Euris (Paris) and Deputy Chief Executive Officer of investment fund Euris (investments in industrial companies). From 1993 to 1996, she was the Executive Manager in charge of the development in France of international financial services group GE Capital and Director of its French subsidiary.

Anne Binder is currently a consultant in financial strategy and an independent Director for publicly traded and non-publicly traded companies.

Other current positions and directorships

- Chairperson and co-founder, FinTouch;
- Senior Advisor, Tikehau Investment Management; and
- Director, Oceasoft.*

Directorships expired in the past five years, outside Lectra Group

- Director, French National Chamber of Financial; and Investment Advisors (CNCIF)
- Director, Osmozis.*

**listed company*

ROSS McINNES

Independent Director

Member of the Audit Committee, the Compensation Committee and the Strategic Committee

Age 64

Nationality: French and Australian

Director since:
January 1, 2018

Term of office began:
January 1, 2018
(in place of André Harari, following his resignation, for the remainder of his term of office)

Term of office ends:
at end of the shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2019

Number Lectra shares held: 500

Biography – Experience and expertise

Ross McInnes studied Politics, Philosophy and Economics at St John's College, University of Oxford.

He started his career in 1977 with Kleinwort Benson, first working in London and then Rio de Janeiro, before joining in 1980 the corporate finance arm at Continental Bank (now Bank of America).

In 1989, Ross McInnes joined Eridania Béghin-Say, where he was appointed Chief Financial Officer in 1991, and then served as a member of the Board of Directors from 1999 to 2005.

The following year, he joined Thomson-CSF (now Thales) as Executive Vice President and Chief Financial Officer, assisting in the group's transformation through 2005. He then moved to PPR (now Kering) as Executive Vice President for Finance and Strategy. He was appointed to the Supervisory Board of Générale de Santé in 2006, serving as acting Chairman of the Management Board from March to June 2007. He also served as Vice Chairman of Macquarie Capital Europe, specializing in infrastructure investments.

Ross McInnes joined Safran in March 2009 as advisor to the Chairman of the Executive Board, and became Executive Vice President, Economic and Financial Affairs in June of the same year. From July 2009 to April 2011, he was a member of the Executive Board, and then from April 2011 to April 2015 he was Deputy Chief Executive Officer. On April 23, 2015, Ross McInnes was named Chairman of the Board of Safran.

In February 2015, the French Ministry of Foreign Affairs appointed Ross McInnes as Special Representative for Economic Relations with Australia, within the scope of France's economic diplomacy policy.

In November 2016, he joined the High Committee for Corporate Governance, following his nomination by the French association of large companies (AFEP) and the French employers' union (MEDEF).

In February 2017, he joined SICOM, the general partner of Vivescia Industries, as a "qualified person".

In October 2017, the French Prime Minister appointed Ross McInnes Co-Chairman of the "Action Publique 2022" committee, charged with proposing public policy reforms.

In January 2018, he joined the IFRS Foundation, the parent body of the International Accounting Standards Board (IASB), as Trustee and Director.

Ross McInnes is also a Director and member of the Nomination and Governance Committee of Eutelsat and, since May 18, 2018, a member of the Audit Committee of Engie.

ROSS McINNES

Independent Director

Member of the Audit Committee, the Compensation Committee and the Strategic Committee

Other current positions and directorships

- Chairman of the Board of Directors, Safran;*
- Director, member of the Audit Committee and member of the Nomination and Governance Committee, Eutelsat Communications;*
- Director, and member of the Audit Committee, Engie;*
- Co-Chairman of the "Action Publique 2022" Committee;
- Member of the High Committee for Corporate Governance;
- Special Representative for Economic Relations with Australia;
- "Qualified person" at SICOM, the general partner of Vivescia Industries; and
- Trustee and Director of the IFRS Foundation.

Directorships expired in the past five years, outside Lectra Group

- Deputy Chief Executive Officer, Safran (April 2015);
- Director and Chairman of the Audit Committee, Faurecia* (May 2017);
- Director, Safran USA, Inc. (June 2015);
- Director, Safran Nacelles (December 2014);
- Director, Safran Helicopter Engines (December 2014);
- Director, Safran Landing Systems (December 2014);
- Director, Safran Identity & Security (December 2014);
- Director, Safran Aircraft Engines (December 2014);
- Permanent representative of Etablissements Vallaroche on the Board of Directors of Soreval (Luxembourg) (May 2015);
- Non-Executive Director and Chairman of the Audit Committee, IMI Plc* (UK) (October 2017);
- Director, Financière du Planier (June 2015);
- Permanent representative of Santé Europe Investissements Sarl on the Board of Directors of Santé SA* (Luxembourg) (October 2014); and
- Permanent representative of Santé Europe Investissements Sarl on the Board of Directors and member of the Audit Committee, Générale de Santé SA* (Luxembourg) (March 2014).

**listed company*

NATHALIE ROSSIENSKY

Independent Director

Member of the Audit Committee, the Compensation Committee and the Strategic Committee

Age 49

Nationality: French

Director since:
April 29, 2016

Term of office began:
April 29, 2016

Term of office ends:
at end of the shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2019

Number Lectra shares held: 990

Biography – Experience and expertise

Nathalie Rossiensky graduated from University Paris-Dauphine (Master of Applied Mathematics and D.E.A. of Financial Economics), and holds a Ph.D. in Finance from London Business School.

She started her career in 2000 with JP Morgan Private Bank in Paris, before joining the Investment Management Division of Goldman Sachs International, first in London in 2005, and then in Paris, where she served through 2013 as Executive Director in charge of asset allocation and investment in all asset classes for family offices and family-owned corporates.

From 1998 to 2000, Nathalie Rossiensky was Assistant Professor of Finance at the Fuqua School of Business, Duke University (USA); her research focused on asset management, financial intermediation and game theory. She has spoken at conferences including at Stanford University, NYU Stern School of Business (USA), and INSEAD (France).

Nathalie Rossiensky is currently Executive Vice President at Lombard Odier Europe, based in Paris.

Other current positions and directorships

- Director, Selectys (SICAV); and
- Executive Vice President, Lombard Odier (Europe) SA.

Directorships expired in the past five years, outside Lectra Group

- Director, Bayard Invest (SICAV); and
- Director, Bienvenues Invest (SICAV).

Directors' and Chairman and Chief Executive Officer's shareholdings

Article 19 of the AFEP-MEDEF Code on ethical rules for Directors recommends that each Director should be a shareholder in a personal capacity and should own a significant minimum number of shares relative to the Director's fees received. If the Director does not own these shares at the time of joining the Board of Directors, he or she should use a portion of Director's fees received to purchase shares. The Director is required to notify the Company of his or her compliance, this information being provided in the Report on Corporate Governance. Article 1.11 of the Internal Rules and Procedures of the Board of Directors provides that all Lectra Directors must own at least 1,500 of the Company's shares. Directors who do not hold these shares at the time of joining the Board of Directors are required to invest the equivalent of 25% of their annual Director's fee (i.e. approximately half of the net amount received by them after deduction of social security contributions and personal income tax) until they have acquired the requisite number of shares. Such investment must be made within twelve months following payment of the said Director's fee.

At February 26, 2019, the Lectra shares held by Directors and Company Officers were as follows:

- Daniel Harari: 5,507,560 shares (17% of the share capital);
- Bernard Jourdan: 1,503 shares (of which 150 purchased by reinvesting a portion of his Director's fee received in respect of the fiscal year ended December 31, 2017, 575 purchased by reinvesting a portion of his Director's fee received in respect of the fiscal year ended December 31, 2016, 700 purchased by reinvesting a portion of his Director's fee received in respect of the fiscal year ended December 31, 2015, and 78 held previously);
- Anne Binder: 1,500 shares (of which 80 purchased by reinvesting a portion of her Director's fee received in respect of the fiscal year ended December 31, 2017, 520 purchased by reinvesting a portion of her Director's fee received in respect of the fiscal year ended December 31, 2016, 700 purchased by reinvesting a portion of her Director's fee received in respect of the fiscal year ended December 31, 2015, and 200 held previously);
- Ross McInnes: 500 actions purchased in May 2018; and
- Nathalie Rossiensky: 990 shares (of which 500 purchased by reinvesting a portion of her Director's fee received in respect of the fiscal year ended December 31, 2017, 190 purchased by reinvesting a portion of her Director's fee received in respect of the fiscal year ended December 31, 2016 and 300 held previously).

Criteria defining Directors' independence

To comply with the rules of corporate governance as set out in article 8.3 of the AFEP-MEDEF Code, in widely-held corporations without controlling shareholders, independent Directors must make up at least 50% of the membership of the Board of Directors.

In general, a Director is deemed to be independent when there is no relationship of any kind whatsoever with the Company, its Group or its management liable to compromise the Director's freedom of judgment.

The Company's use of the term "independent Director" is consistent with the recommendations of the AFEP-MEDEF Code, which stipulates that independence must be discussed by the Compensation Committee, acting as the Nominations Committee, and determined by the Board of Directors when appointing a Director, as well as annually for all Directors.

During the meeting of the Compensation Committee on February 26, 2019, attended by the Chairman and Chief Executive Officer, the status of independent Director was discussed and confirmed for each member. Anne Binder, Bernard Jourdan, Ross McInnes and Nathalie Rossiensky satisfy all the criteria for independence set out in the AFEP-MEDEF Code (in particular, there is no business relationship or particular bond of interest of any sort whatsoever between these Directors and the Company). The Board of Directors that met the same day took note of this decision by the Compensation Committee.

Daniel Harari, Chairman and Chief Executive Officer, is the Company Officer and as such is not deemed to be independent.

The following table sets out the status of each Director with regard to the criteria for independence set out in section 8 of the AFEP-MEDEF Code:

Criteria for independence	Daniel Harari	Bernard Jourdan	Anne Binder	Ross McInnes	Nathalie Rossiensky
Criterion 1: Employee or Company Officer within the previous 5 years	Yes	No	No	No	No
Criterion 2: Cross-directorships	No	No	No	No	No
Criterion 3: Significant business relationships	No	No	No	No	No
Criterion 4: Family ties to a Company Officer	No	No	No	No	No
Criterion 5: Auditor within the previous 5 years	No	No	No	No	No
Criterion 6: Period of office exceeding 12 years	Yes	No	No	No	No
Criterion 7: Status of Non-Executive Officer *(receives variable compensation or any compensation linked to the performance of the Company or Group)*	No	No	No	No	No
Criterion 8: Status of the major shareholder *(holds over 10% of the capital or voting rights in the Company)*	Yes	No	No	No	No

Duration of Directors' appointments

To comply with article 13.1 of the AFEP-MEDEF Code, the term of office of the members of the Board of Directors was set at four years following the shareholders' meeting of April 27, 2012.

In previous fiscal years, the Company had opted for coincident terms of office for Directors in order to ensure stability in the operation of the Board of Directors and its committees.

However, because the directorships of the five members of the Board of Directors have the same expiry date, at the ordinary shareholders' meeting of April 30, 2020 called to approve the financial statements for the fiscal year ended December 31, 2019, staggered renewal of the terms of office would have the advantage of associating continuity with evolution in shareholder representation and favor a smooth replacement of Directors. The members of the Board of Directors would still be appointed for a term of four years, in keeping with the Company's by-laws, with one fourth, or as close a fraction as possible, renewed each year, thus staggering Directors' terms of office.

Therefore, the Board of Directors has decided to propose to the shareholders at the Ordinary Shareholders' Meeting of April 30, 2019 (the **"Shareholders' Meeting"**), two resolutions regarding the appointment of Anne Binder and Bernard Jourdan as Directors, following their resignations submitted to facilitate the staggering of Directors' terms of office. Anne Binder and Bernard Jourdan would then be appointed, subject to a favorable vote by the Shareholders' Meeting, to a new four-year term of office to expire at the end of the 2023 shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2022.

At the 2020 ordinary shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2019, the terms of office of the other three Directors will expire and will be renewed for a four-year term.

At the 2011 and 2022 ordinary shareholders' meetings called to approve the financial statements for the fiscal years ended December 31, 2020 and 2021, the Company will propose to the shareholders a resolution regarding the appointment of a Director for a four-year term, following that Director's resignation submitted to facilitate the staggering of Directors' terms of office.

The Company will thus be compliant with article 13.2 of the AFEP-MEDEF Code regarding staggered terms of office for members of the Board of Directors.

Representation of women on the Board of Directors

Law 2011-103 of January 27, 2011, on the balance between women and men on Boards of Directors and supervisory boards and professional equality sets the minimum proportion of Directors of each gender at 40% as of 2017.

The Company has complied strictly with the figure of 40% women on the Board of Directors since the shareholders' meeting of April 29, 2016.

Attendance of members of the Board of Directors

In accordance with article 10.1 of the AFEP-MEDEF Code, the following table reports on the individual attendance of each Director at meetings of the Board of Directors and its committees during the fiscal year ended December 31, 2018:

	Regular attendance on the Board of Directors	Regular attendance on the Audit Committee	Regular attendance on the Compensation Committee	Regular attendance on the Strategic Committee
Daniel Harari *Chairman and Chief Executive Officer*	100%	Not a member	Not a member	100%
Bernard Jourdan *Lead Independent Director*	100%	100%	100%	100%
Anne Binder *Independent Director*	100%	100%	100%	100%
Ross McInnes *Independent Director*	100%	100%	100%	100%
Nathalie Rossiensky *Independent Director*	100%	100%	100%	100%

Age limit for Directors and for the Chairman of the Board of Directors

Under article 11 of the Company by-laws, the proportion of Directors aged over 70 is restricted to one-half of the total number of Directors in office. If the threshold of one half of the Directors is exceeded, the last Director to reach the age of 70 shall automatically be deemed to have resigned, his or her appointment expiring at the end of the next annual ordinary shareholders' meeting, in order to ensure the continuity of terms of office and of the Board of Directors' work in the course of a given fiscal year.

Under article 13 of the Company's by-laws, the age limit for the position of Chairman of the Board of Directors is 76.

On the date of this report, only a single Director, Bernard Jourdan, was over 70 years of age.

Training of Directors

Non-executive independent Directors receive training on the specific characteristics and operational issues of the Company, including but not limited to businesses, sectors of activity, products and services, as well as its organization and operating mode, in order to gain a thorough understanding thereof.

Meetings with the Company's principal senior executives, and a visit of the Group's technology campus, were organized accordingly in 2018 for all the Directors.

Outside directorships held by Company Officers

Article 18.2 of the AFEP-MEDEF Code recommends that an executive officer should not hold more than two other directorships in listed corporations, including foreign corporations, outside of his or her group. He or she must also seek the opinion of the Board of Directors before accepting a new directorship in a listed corporation.
Article 1.8 of the Company's Internal Rules and Procedures of the Board of Directors goes beyond the recommendations of the AFEP-MEDEF Code and prohibits Company Officers from holding directorships in any French or foreign company, listed or unlisted, outside the Group.
This is indeed the case for Daniel Harari, who holds no directorship outside the Group.

Attendance of Directors at shareholders' meetings

Article 19 of the AFEP-MEDEF Code recommends that Directors attend not only all meetings of the Board of Directors and of the committees to which they belong, but also attend shareholders' meetings.
All Directors attended the ordinary shareholders' meeting of April 27, 2018, as they did for the shareholders' meetings of previous years.

1.3 Committees of the Board of Directors

The Board of Directors has created three specialized committees: an Audit Committee (since 2001), a Compensation Committee (since 2001), and a Strategic Committee (since 2004).
Given the limited number of Directors, the functions of the Nominations Committee are performed by the Compensation Committee (in which case the Chairman and Chief Executive Officer may take part in the discussions, as provided in article 17.2, paragraph 2 of the AFEP-MEDEF Code).
Finally, the AFEP-MEDEF Code requires each committee to establish rules spelling out its duties and procedures, and these have been incorporated into the Internal Rules and Procedures of the Board of Directors.
Between meetings of the committees, their members may communicate as necessary by email, in particular with the Chairman and Chief Executive Officer, in order to obtain further information on certain questions.

Audit Committee

Membership

The Audit Committee consists of four independent Directors: Bernard Jourdan, Chairman of the committee, Anne Binder, Ross McInnes and Nathalie Rossiensky.
Article 15.1 of the AFEP-MEDEF Code requires the members of the Audit Committee to be competent in financial or accounting matters. Each member of the Audit Committee satisfies this condition, in view of their academic qualifications and professional career, as described in their biographies printed above. In addition, in accordance with the recommendations of article 12.2 of the AFEP-MEDEF Code, the members of this committee are provided, at the time of their appointment, with information relating to the Company's specific accounting, financial and operational features.
Bernard Jourdan has held management positions in various international industrial groups, including SPIE and Schindler, where he has developed a thorough understanding of corporations, accounting and finance.
Anne Binder has developed her expertise in finance, particularly in the area of acquisitions, in positions she has occupied in international finance, including with Lazard Frères and GE Capital.
Ross McInnes has considerable strategic and operational financial experience, having served in senior financial and administrative positions with organizations such as Thales (formerly Thomson-CSF), Kering (formerly PPR), and Safran, where he now serves as Chairman of the Board of Directors.
Nathalie Rossiensky has acquired expertise in the area of finance and financial markets with investment banks such as Goldman Sachs and Lombard Odier.

Mission

As prescribed by law and as recommended by article 15.2 of the AFEP-MEDEF Code, the mission of the Audit Committee is to:

- review the financial statements, and in particular ensure the relevance and continuity of the Company's accounting methods used to prepare the consolidated and statutory financial statements; oversee the process for the preparation of financial disclosure and the effectiveness of internal control and risk management procedures; and, prior to meetings of the Board of Directors, review press releases and quarterly and annual financial announcements. The Audit Committee scrutinizes important transactions liable to give rise to conflicts of interest. It reviews significant risks and off-balance sheet liabilities, assesses the importance of malfunctions or shortcomings brought to its attention, and informs the Board of Directors thereof where appropriate. It also reviews the scope of consolidation and, where appropriate, examines reasons for the exclusion of companies;

- oversee the rules governing the independence and objectivity of the Statutory Auditors, manage the procedure for their selection when their current appointment expires, and make its recommendation to the Board of Directors. Each year the Statutory Auditors supply information to the Audit Committee on the services provided directly related to their statutory audit engagement, together with fees paid by Group companies to members of their network in respect of services not directly related to this mission;
- examine, in relation to the Group's strategy, the Group's commitment and policies in the areas of ethics and corporate social, environmental and societal responsibility, the implementation of such policies, and their results. In this respect, it checks for the existence of systems to identify and manage the principal risks relating to these issues, and for compliance with legal and regulatory requirements (including monitoring the application of French Law 2016-1691 of December 9, 2016 on transparency, the fight against corruption, and modernization of the economy, the "Sapin II Act", and Order 2017-1180 of July 19, 2017 and its enabling decree 2017-1265 of August 9, 2017 on the introduction of a non-financial statement). It examines the information provided annually in the Management Discussion in the form, for the first time in respect to the fiscal year ended December 31, 2018, of a non-financial statement, appended to the *Rapport de Gestion du Conseil d'Administration* (available, in French only, on the Company's website, lectra.com) for non-financial information as required by law, particularly article L. 225-102-1 of the French Commercial Code; and
- make recommendations and express all opinions to the Board of Directors.

More generally, the Audit Committee may consider all questions brought to its attention and pertaining to the areas mentioned above.

Meetings and activities

The Audit Committee meets at least four times a year, prior to the meetings of the Board of Directors 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 has held six meetings in 2018, with an effective attendance rate of 100%.

Review of accounts

The Audit Committee continuously oversees the preparation of the Company accounts, internal audits and financial reporting practices, together with the quality and fairness of the Company's financial report. The Chief Financial Officer assists the Audit Committee in the performance of its duties, and the Audit Committee periodically reviews with him areas of potential risk to which it needs to be alerted or requiring closer attention. The Audit Committee also works with the Chief Financial Officer in reviewing and approving guidelines for the work program on management control and internal control for the year in progress.
The Audit Committee notably reviews significant off-balance sheet risks and liabilities, assesses the magnitude of malfunctions or weaknesses brought to its attention, and any corrective measures put in place, and it informs the Board of Directors at its discretion. Further, it reviews the assumptions used in closing the consolidated and statutory, quarterly, half-year and annual financial statements, the annual budget prepared by the Executive Committee, and the revenue and financial results scenarios for the fiscal year and their quarterly review, before review by the Board of Directors.
The Audit Committee Chairman reports on the committee's proceedings and recommendations to the Board of Directors at its meetings called to review the quarterly and annual financial statements.
The review of the financial statements is accompanied by a presentation by the Chief Financial Officer

of the Company's financial results, accounting methods chosen, exposure to risks, including social, environmental and societal risks, as well as significant off-balance sheet commitments. The review of the half-year and annual accounts is also accompanied by a presentation by the Statutory Auditors drawing attention to the key features of financial results and the accounting choices made, together with an account of their auditing work and observations, if any. The Audit Committee Chairman systematically asks the Statutory Auditors if they intend to qualify their reports.

Article 15.3, paragraph 1 of the AFEP-MEDEF Code recommends that sufficient time be allowed for transmission of the accounts and their review. The Audit Committee systematically meets in the morning on the day of the Board of Directors meeting, prior to the Board of Directors meeting, in order to shorten the time between the closing of consolidated and statutory financial statements and market disclosure. However, members of the Audit Committee and those of the Board of Directors are given sufficient time for consideration, the relevant documents being communicated to them three to six days before their meetings.

At the Audit Committee meeting preceding the meeting of the Board of Directors held to consider the preparation of the annual shareholders' meeting, the Audit Committee notably reviews the Board of Directors' Management Discussion and the Report of the Board of Directors on Corporate Governance.

The Audit Committee regularly reviews the recommendations and reports of the *Autorité des Marchés Financiers* (AMF) regarding corporate governance, the recommendations of the AFEP-MEDEF Code, and any related laws and regulations.

In 2018, and again on February 12, 2019, at its meetings held to review the financial statements for fiscal year ended December 31, 2018, the Audit Committee notably reviewed the goodwill impairment tests and deferred tax assets at December 31, 2018, together with the impacts on the financial statements of the December 28, 2018 Budget Act 2018-1317 *(loi de finances)* for 2019.

The Audit Committee also reviewed risk prevention measures in keeping with applicable regulations (notably monitoring of the implementation of Law 2016-1691 of December 9, 2016, the "Sapin II Act" and examined the non-financial statement to be included in the Management Discussion of the Board of Directors to the annual Shareholders' Meeting of April 30, 2019 pursuant to Order 2017-1180 of July 19, 2017 and its decree 2017-1265 of August 9, 2017, and the conditions under which the independent third-party body conducted its assignment. On February 12, 2019 the Audit Committee reviewed the Company's budget as well as the revenue and financial results scenarios for the fiscal year ending December 31, 2019, and the progress report on the strategic roadmap for 2017-2019, together with macroeconomic assumptions serving as the basis for the information communicated to the financial markets.

The Audit Committee has not identified any operations liable to give rise to a conflict of interest.

Statutory Auditors

The Audit Committee reviews and discusses with the Statutory Auditors the scope of their engagement and their fees. 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 accounts for the fiscal year ended, and confirming the independence of their firms in accordance with the French Code of Professional Conduct and the August 1, 2003 (French) Financial Security Act.

On January 15, 2019, the Audit Committee devoted a working meeting with the Statutory Auditors and the finance team to the presentation of their overall audit approach and a review of controls on information systems revenue recognition applications.

The Audit Committee annually reviews with the Statutory Auditors the risks to their independence. Given the size of the Lectra Group, it is not deemed necessary to envisage precautionary measures in order to attenuate these risks. The amount of the fees paid by the Company and its subsidiaries, and their share of total revenues of the audit firms and their networks, are not material and therefore not such as to impair the independence of the Statutory Auditors.

The Audit Committee assures itself each year that the mission of the Statutory Auditors is exclusive of

all other services unrelated to their legally mandated audit, and in particular exclusive of all legal, tax, IT, etc. consulting work performed either directly or indirectly for the benefit of the Company or its subsidiaries. However, additional work or work directly complementing the audit of the financial statements is performed at the Audit Committee's recommendation; the corresponding fees are immaterial.
In this respect, on October 30, 2017 the Audit Committee approved a charter setting forth the authority of the Chairman and Chief Executive Officer, the Executive Vice President and Chief Financial Officer regarding contracting for the provision of services with the Statutory Auditors and their networks.
In 2018, the Audit Committee did not see fit to call upon outside experts.

Compensation Committee

Membership

The Compensation Committee consists of four independent Directors: Bernard Jourdan, Chairman of the Compensation Committee, Anne Binder, Ross McInnes and Nathalie Rossiensky.
Article 17.1 of the AFEP-MEDEF Code states that it is advised that an employee Director be a member of this committee. However, inasmuch as the Company is not covered by the obligation to appoint employee Directors, for the reasons stated above, this recommendation does not apply to it.

Mission

The mission of the Compensation Committee is broader than that laid down in the recommendations of article 17.2 of the AFEP-MEDEF Code; it is to:

- review, prior to meetings of the Board of Directors called to vote on these questions, 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 the Company Officers, and make recommendations. At year-end closing, the Compensation Committee validates the actual amount corresponding to variable compensation earned during the fiscal year ended;
- review the principles, criteria and the amount of fixed and variable compensation, and check whether or not annual targets governing calculation of the variable portion, together with additional benefits paid to other members of the Executive Committee, are met;
- review the fixed and variable compensation of all Group managers whose total annual compensation exceeds €200,000 or its equivalent in foreign currencies;
- prepare the draft resolutions regarding compensation for Company Officers to be submitted to the shareholders' meeting for approval;
- review, prior to the meeting of the Board of Directors voting on these questions, the details, rules and granting of the annual stock options plan, and make its recommendations;
- review the Company policy on equal opportunities and equal pay, and make recommendations to the Board of Directors prior to annual discussion, as prescribed in Law 2011-103 of January 27, 2011, on the balance between women and men on Boards of Directors and supervisory boards and professional equality, and Law 2014-873 of August 4, 2014, to promote real equality between women and men;
- take cognizance annually of the Group's human resources performance report, of its policies and of the corresponding plan for the current fiscal year; and
- prepare a succession plan for the Company Officer.

In this capacity, the Compensation Committee makes recommendations and expresses all opinions to the Board of Directors and examines all questions brought to its attention and pertaining to these areas.

Meetings and activities

The Compensation Committee organizes its work as it sees fit. It meets as often as the interests of the Company demand and at least once before each meeting of the Board of Directors whenever the agenda provides for the setting of compensation and additional benefits for the Company Officers, or for the granting of stock options, and reports on its recommendations to the Board of Directors.
The Compensation Committee met four times in 2018 with an effective attendance rate of 100%. The Chairman and Chief Executive Officer was invited to attend all of these meetings.

The Compensation Committee reviews the compensation and additional benefits of the other members of the Executive Committee, as well as, once a year, the compensation of the senior Group managers. In addition, it annually reviews the Company's policy on equal opportunities and equal pay, prior to the meeting of the Board of Directors, and makes its recommendations. The Compensation Committee reviews in detail all corresponding documents prepared by the Chief Human Capital Officers, France and International, and communicates its recommendations to the Board of Directors.
The Compensation Committee also met on February 12 and February 26, 2019 to validate the definitive amount of the variable compensation of the Chairman and Chief Executive Officer for the fiscal year ended December 31, 2018, and to review the principles and the rules governing variable compensation of the Chairman and Chief Executive Officer for the fiscal year ending December 31, 2019, based on the targets for 2019. The Chairman of the Compensation Committee submitted the committee's recommendation to the Board of Directors meetings of February 12 and February 26, 2019.
Moreover, article 17.3 of the AFEP-MEDEF Code recommends that, when reporting on the proceedings of the Compensation Committee to the Board of Directors, the Board of Directors should deliberate on issues relating to the compensation of the Company Officers in the absence of the latter. The Board of Directors has seen fit to comply with this recommendation and the Compensation Committee, which comprises all of the independent Directors, meets in the absence of the Chairman and Chief Executive Officer for the purpose of discussing his compensation.

Strategic Committee

The Strategic Committee consists of five Directors, four of whom are independent: Daniel Harari, Chairman of the Strategic Committee, Anne Binder, Bernard Jourdan, Ross McInnes and Nathalie Rossiensky.

Mission

The prime mission of the Strategic Committee is to review the consistency of the Company's strategic plan, the key challenges and risks to which it is exposed, its internal and external growth drivers, and the optimization of its development in the medium term. The Strategic Committee organizes its work as it sees fit. It meets as often as the interests of the Company demand and at least once a year. It notably reviews and discusses the major strategic directions and development themes proposed by the Chairman and Chief Executive Officer, in order to prepare the Group for the global economic challenges and key risks to which it is exposed, and to reinforce its business model and its operating and financial ratios. It is regularly kept informed of their execution.
Within this framework, it studies and formulates recommendations on the strategic plan, on the broad aims of annual action plans, on external growth operations, and, finally, on financial or stock market transactions having a significant immediate or future impact on the share capital and more generally on equity of the shareholders.
The Strategic Committee reports on its proceedings to the Board of Directors at least once a year and whenever it wishes to make recommendations to the Board of Directors.

Meetings and activities

The Strategic Committee met four times in 2018, with an effective attendance rate of 100%. It devoted an entire day to visiting the Bordeaux-Cestas technology campus.
In view of the importance of the subjects covered, the Executive Vice President, other members of the Executive Committee, and the Strategy Director were invited to speak, depending on the subjects examined.
The Strategic Committee in particular reviewed progress in the execution of the 2017-2019 strategic roadmap which it had validated at the start of 2017, reviewed the broad outlines of the research and development action plan, marketing plan and human resources plan, and the corresponding revenue and financial results scenarios, and formulated recommendations. The Strategic Committee has been regularly informed of the impact on the Group's activities of developments in the macroeconomic and competitive environment.
It also reviewed various options for external growth.
Further, at its meeting of January 25, 2018, the

Strategic Committee reviewed and discussed the scenarios and priorities for 2018 and analyzed the acquisition of the company Kubix Lab.

Limits to the decision-making powers of the committees

Subjects that the Chairman and Chief Executive Officer 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 observations, if any, and recommendations to the full session of the Board of Directors. The Board of Directors is thus kept fully informed, facilitating its decisions.
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 are considered and approved by the Board of Directors.
Moreover, all financial press releases and notices published by the Company are submitted to review by the Audit Committee and the Statutory Auditors, before being submitted to the Board of Directors, and are published on the same evening after the close of trading on Euronext Paris.

1.4 Lead Director

Article 3.3 of the AFEP-MEDEF Code provides that, when the Board of Directors decides to confer special tasks upon a Director, and in particular a Lead Director, those tasks and the resources and prerogatives to which he or she has access must be described in the Internal Rules and Procedures of the Board of Directors. It is recommended that the Lead Director be independent.
At its meeting on February 9, 2017, the Board of Directors named Bernard Jourdan, an independent Director also serving as Chairman of the Audit and Compensation Committees, to be Lead Director.

This position did not exist previously. Article 1.6 of the Internal Rules and Procedures of the Board of Directors specifies that the Lead Director is entrusted with certain specific tasks:

- to perform the role of leader of the independent Directors;
- to organize at his/her discretion, and at least once a year, and to set the agenda and chair meetings of the independent Directors in the absence of the Chairman and Chief Executive Officer, in order to evaluate his performance and his succession plan, and to report to the Chairman and Chief Executive Officer and to the Board of Directors in full session, as appropriate;
- to monitor and manage possible conflicts of interest in connection with the Company Officers;
- to propose to the Chairman and Chief Executive Officer, if necessary, items for placing on the agenda of meetings of the Board of Directors;
- to direct the annual evaluation of the Board of Directors by the independent Directors;
- in the event the Chairman and Chief Executive Officer should be unable to do so, to convene and to chair meetings of the Board of Directors.

Except within the framework of exceptional missions entrusted to him/her and as explicitly provided for, the Lead Director has no authority to communicate with the shareholders in the name of the Board of Directors.
The Lead Director is assisted by the Secretary of the Board of Directors, who is appointed by the Board of Directors from among the members of the Company's management team, for the performance of administrative tasks arising from his/her role and receives no compensation in respect of this role.
The Lead Director reports to the Board of Directors on his/her duties at least once a year. The report on his/her activity is provided below:

Lead Director's 2018 Activity Report

During fiscal year ended December 31, 2018, the Lead Director attended all meetings of the Board of Directors, and all meetings of the Audit Committee, the Compensation Committee and the Strategic Committee.

He was able to fully carry out, to his satisfaction, his missions during fiscal year ended December 31, 2018, as he stated at the meeting of the Board of Directors on February 12, 2019, when he reported on his activity.

He chaired the annual meeting of independent Directors held on December 5, 2018, in the absence of the Chairman and Chief Executive Officer. An objective of this meeting was to carry out the periodic assessment of the operation of the Board of Directors, following the assessment carried out in 2017 and to assess, within the framework of a formal three-year evaluation, the individual effective contribution of each Director to the Board of Directors' work.

The agenda for this annual meeting also included the assessment of the performance of the Chairman and Chief Executive Officer, the review of his compensation components and his succession plan, as he reported at the meeting of the Board of Directors on February 12, 2019.

The Lead Director had no knowledge of any potential conflicts of interest affecting the Chairman and Chief Executive Officer.

1.5 Board of Directors and Board of Directors' committees overview

	Daniel Harari *Chairman and Chief Executive*	Bernard Jourdan *Independent Director*	Anne Binder *Independent Director*	Ross McInnes *Independent Director*	Nathalie Rossiensky *Independent Director*
Personal information					
Age	64	74	68	64	49
Gender	M	M	F	M	F
Nationality	FR	FR	FR	FR-AUS	FR
Number of shares	5,507,560	1,503	1,500	500	990
Experience					
Number of directorships in listed companies	0	0	2	3	0
Position on the Board of Directors					
Independence	No	Yes	Yes	Yes	Yes
Initial date of appointment	1991	21/12/2011	27/10/2011	01/01/2018	29/04/2016
Term of office expires	AGM 2020	AGM 2020	AGM 2020	AGM 2020	AGM 2020
Length of service on Board of Directors	28	7	7	1	3
Participation in Board of Directors' committees					
Audit Committee	-	■	□	□	□
Compensation Committee	-	■	□	□	□
Strategic Committee	■	□	□	□	□

BOARD OF DIRECTORS' COMMITTEES	Daniel Harari	Bernard Jourdan**	Anne Binder*	Ross McInnes*	Nathalie Rossiensky*	Number of meetings 2018	Attendance rate
Audit Committee	-	■	□	□	□	6	100%
Compensation Committee	-	■	□	□	□	4	100%
Strategic Committee	■	□	□	□	□	4	100%

■ *Chairman* □ *Member*

**Independent Director.*

***Lead Director.*

1.6 Internal Rules and Procedures of the Board of Directors and Board of Directors' committees

Articles 2.2 and 14.3 of the AFEP-MEDEF Code recommend the establishment of internal rules to govern the procedures of the Board of Directors and its committees.
As a long-standing practice, the Board of Directors has (i) specified situations that require its prior approval, including but not limited to 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 (ii) has laid down the rules under which it is informed of the Company's financial situation and cash position.
The Internal Rules and Procedures of the Board of Directors were updated on February 26, 2019, and are available on the Company's website.
The Company by-laws are regularly updated in response to legal and regulatory developments, providing a detailed presentation of the Company's organizational and operational rules, together with the changes in the corporate governance rules promoted by the AFEP-MEDEF Code and in the practice of the Board of Directors.

Prevention of conflicts of interest

The Board of Directors has also long had in place a procedure for managing conflicts of interest, if any. This procedure is formalized in the Board of Directors' Internal Rules and Procedures.
Pursuant to article 1.6 of the Board of Directors' Internal Rules and Procedures, the Board of Directors has tasked the Lead Director with monitoring and managing possible conflicts of interest in connection with the Company Officers.
Further, each Director (i) must ensure at all times that their personal situation avoids all conflicts of interest with the Company or any of its subsidiaries, (ii) has a duty spontaneously to inform the Board of Directors of any situation or risk of conflict of interest, real or potential, and (iii) must abstain from taking part in the corresponding discussions, votes or deliberations.
Further, and without prejudice to the formalities pertaining to authorizations and control prescribed by law and the Company by-laws, Directors are required to notify the Chairman and Chief Executive Officer without delay of any related-party transaction into which the Group may enter and in which they have a direct or indirect interest, regardless of its nature.
The Chairman and Chief Executive Officer notifies the Board of Directors of any conflicts of interest or potential conflicts he may have identified concerning the Company Officers and the other Directors. He abstains from participating in the votes on motions regarding his compensation.
In the event of a conflict of interest, including a potential conflict of interest, the Board of Directors must decide on this question and, if necessary, call upon the Director concerned to rectify his/her position.
The list and purpose of agreements entered into in the ordinary course of business and on arms' length terms has been communicated to the members of the Board of Directors and to the Statutory Auditors in accordance with the provisions of article L. 225-39 of the French Commercial Code.

1.7 Timetable, meetings and activity 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 shareholders' meeting and the two annual analysts' meetings is drawn up prior to the close of the current year for the following year. The calendar is published on the Company's website and communicated to Euronext Paris. The timetable of meetings of the committees, Board of Directors and annual shareholders' meetings for the fiscal years ended December 31, 2018 and December 31, 2019 was communicated at the Board of Directors' shareholders' meeting on July 27, 2017.
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 forty-five to sixty days prior to the shareholders' meeting in order to review the documents and decisions to be presented, and approximately twenty trading days after the dividend approved by the Shareholders' Meeting of April 30, 2019 is made payable, i.e. around June 10, 2019 for the granting of the annual stock option plan.

The Statutory Auditors are invited to, and systematically attend, these meetings with the exception of the meeting to decide on the annual stock options plan.
In addition, the Board of Directors 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 Secretary of the Board of Directors is systematically invited to attend and takes part in all Board of Directors meetings, except when prevented from doing so. His duties include, in coordination with and under the supervision of the Chairman and Chief Executive Officer, drafting the minutes of the Board of Directors' meetings and assisting the Directors regarding material and regulatory issues, particularly the payment of Directors' fees and filings on any securities transactions by Directors.
The Board of Directors met seven times in 2018, with an effective attendance rate of 100%.

1.8 Voting rights: maintaining the principle of one share, one vote

The Board of Directors called an extraordinary shareholders' meeting on September 26, 2014 to approve the amendments and simplifications to the Company by-laws, regarding in particular maintenance of the principle of "one share, one vote" following the entry into force of the French March 29, 2014 Act "aiming to recapture the real economy" (Law 2014-384, the "Florange Act"). This act reversed the previously existing principle, providing that shares of listed companies registered for at least two years in the name of the same shareholder will henceforward enjoy double voting rights, except where otherwise stipulated in Company by-laws adopted after the promulgation of the law.
As recommended by the Board of Directors, the extraordinary shareholders' meeting of September 26, 2014 approved almost unanimously (99%) the principle of one share, one vote, departing from the new law and amending the Company by-laws accordingly.

As a result, only 236,696 shares (representing 0.7%) of the capital stock held in registered form before May 15, 2001—at which date the Company abolished the previously-existing double voting rights for shares registered after that date, together with shares purchased after that date—carried double voting rights at December 31, 2018.

1.9 Investor information on the Company's long-term outlook

Article 4.3 of the AFEP-MEDEF Code stipulates that, in communicating with the market, the Board of Directors should ensure that shareholders and investors receive relevant information that is balanced and keeps them fully cognizant of the strategy, the development model, and the consideration of non-financial aspects that are of significance to the Company as well as its long-term outlook.
The Company presented its strategic roadmap for 2017-2019 on the occasion of the publication of the fourth quarter and full-year financial results for 2016, on February 9, 2017, in its 2016 Annual Report and in the Report of the Board of Directors to the ordinary shareholders' meeting of April 28, 2017.

1.10 Organization of Board of Directors proceedings - communication of information to Directors

The agenda is set by the Chairman and Chief Executive Officer after consulting, when appropriate, with the Lead Director, the Chairmen of the Audit Committee, the Compensation Committee and the Strategic Committee, in order to place on the agenda all subjects they wish to be discussed at the forthcoming Board of Directors meeting.
Three to six days before each Board of Directors meeting, a set of documents is systematically addressed to each Director, to the employees' Works Council representatives, to the Secretary of the Board of Directors and to the Statutory Auditors for the four meetings called to review the financial statements and for the meeting to prepare for the annual shareholders' meeting. Details of each item on the agenda are provided in a written document prepared by either the

Chairman and Chief Executive Officer, the Executive Vice President, the Chief Financial Officer, as required, or are presented during the meeting itself.
As in previous years, in 2018 all documents to be communicated to the Directors were made available to them in compliance with regulations. Further, the Chairman and Chief Executive Officer 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.

1.11 Evaluation of the Board of Directors

Article 9 of the AFEP-MEDEF Code recommends that once a year the Board of Directors should devote an item on its agenda to a discussion of its membership, organization and functioning. The Board of Directors is also required to verify that important questions are thoroughly prepared and discussed, and to assess the effective contribution of each Director to its work in light of their expertise and involvement in the discussions.
This point is discussed at the February 12, 2019 Board of Directors meeting which reviews the financial statements for the fiscal year ended December 31 of the previous year.
Article 9.3 of 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.
The Board of Directors has decided to comply with these recommendations, and conducted a formal evaluation for the first time on December 9, 2015. The independent Directors meet annually, in the absence of the Company Officers, to take note of changes relative to the previous evaluation and to conduct a formal evaluation every three years.
The independent Directors met on December 5, 2018, to review the annual evaluation of the Board of Directors, presenting their conclusions to the Chairman and Chief Executive Officer, then to the full meeting of the Board of Directors on February 12, 2019. They declined to call upon an outside consultant.
In this meeting, they reiterated their opinions of earlier years regarding the highly satisfactory functioning of the Board of Directors, the particularly high standard of governance within the Company, and the transparent relations with the Chairman and Chief Executive Officer founded on trust. They again emphasized the high level of demands that the Chairman and Chief Executive Officer and the Directors put upon themselves, notably with regard to the preparation and proceedings of Board of Directors and committee meetings, the quality, relevance and comprehensive nature of the information communicated to them with sufficient time to allow them to carry out the necessary analyses.
The independent Directors further stressed the frequency of the meetings of the Board of Directors, and of the Strategic, Compensation and Audit Committees, together with duration and productivity of the committee meetings and the good division of labor between them, allowing key issues to be discussed in greater depth, devoting the necessary time to them. The involvement, regular attendance and effective contribution of each of their members are a major asset.
The independent Directors reiterated their invitation to the Chairman and Chief Executive Officer to attend the meetings of the Audit and Compensation Committees as a guest, particularly when it is considered appropriate to hear from the Chairman. The Chairman and Chief Executive Officer indicated however that he wished to fully comply with the recommendations of the AFEP-MEDEF Code and would attend only if expressly invited by the chairs of the Audit and Compensation Committees to certain meetings in this context.
Finally, they stated that they saw no major area in need of improvement at present. Areas that are the subject of continuous improvement were listed and discussed with the Chairman and Chief Executive Officer. Regular follow-up will be carried out to ensure that Lectra continues to be a benchmark in corporate governance.

1.12 Periodic meetings of the independent Directors in the absence of the Chairman and Chief Executive Officer

Article 10.3 of the AFEP-MEDEF Code recommends that the independent Directors meet periodically in the absence of the Executive Officers.
The independent Directors adopt this recommendation, stating the subjects they wish to discuss in the absence of the Company Officer on the occasion of their annual evaluation of the Board of Directors.
The independent Directors met on December 5, 2018 and an oral report was made to the Chairman and Chief Executive Officer. In addition to the formal assessment of the work of the Board of Directors, they discussed a number of governance issues, took stock of the annual review of the Chairman and Chief Executive Officer's performance, and discussed his succession plan.

1.13 Chairman and Chief Executive Officer's succession plan

In its October 10, 2016 report, the French High Committee for Corporate Governance stated that Company Officers' succession plans figured among its priority themes. While acknowledging the delicate nature of this issue, the High Committee considered that it is of the utmost importance that companies plan not only for the untimely departure or demise of the principal Company Officer, but also for "foreseeable" departures, in particular due to age limitations, and should inform shareholders that this planning has been undertaken, with no obligation to publish the results of this planning.

In its amended June 21, 2018 version, article 16.2.2 of the AFEP-MEDEF Code requires the Nominations Committee (or an ad hoc committee) to draw up a succession plan for the Company Officers, and states that this is one of the committee's most important tasks. The Chairman and Chief Executive Officer is involved in the committee's work during the conduct of this task.
The independent Directors began considering this question in 2012 with a view to the long term or in anticipation of unforeseeable events, and have discussed it several times since then. Special attention was paid to the issue at the November 24, 2016 meeting of the Strategic Committee, following an examination of the report of the High Committee for Corporate Governance, then at the meeting of the independent Directors on December 8, 2016.
The independent Directors had then examined the succession plan for André Harari and Daniel Harari, were they to leave. The Company had prepared for the succession of André Harari, which occurred during the Board of Directors' meeting of July 27, 2017.
Daniel Harari has confirmed his intention to continue in his position for at least two further four-year terms at the end of his current term, i.e. until the ordinary shareholders' meeting called to approve the financial statements for fiscal year ended December 31, 2027.
In the event of an untimely departure or demise, all of the Board of Directors members are sufficiently familiar with the workings of the Group to be able to identify, in the shortest possible time, suitable solutions to enable the Group to continue its development.
The Group has the requisite array of competencies to cope with a temporary absence of Daniel Harari, thanks in particular to the organization and smooth functioning of the Executive Committee and the Board of Directors.

1.14 AFEP-MEDEF Code recommendations not implemented: application of the "comply or explain" rule

The table below summarizes the recommendations of the AFEP-MEDEF Code with which the Company is non-compliant and explains the reasons why, applying the "comply or explain" rule provided for in article L. 225-37-4,8° of the French Commercial Code.
In 2018, the Company was compliant with almost all of the recommendations in the AFEP-MEDEF Code.
In particular, starting from the Shareholders' Meeting of April 30, 2019, the Company intends to stagger the terms of office of its Directors so that approximately one fourth are renewed each year, thus favoring a smooth replacement of Directors and meeting the demands of article 13.2 of the AFEP-MEDEF Code. However, the provision of article 24.1.1 of the AFEP-MEDEF Code on the incorporation of criteria related to social and environmental responsibility to determine the compensation of Company Officers has not yet been implemented by the Company; see the table below.

Recommendation of the AFEP-MEDEF Code not applied	Lectra practice and justification
Article 24.1.1 – Criteria related to social and environmental responsibility to determine the compensation of Company Officers	The compensation criteria set in 2017 for three years shall be reexamined in 2020 and could incorporate one or more criteria related to social and environmental responsibility; the Company's Board of Directors is currently reflecting on the most relevant criteria to take into consideration.

2. PRINCIPLES AND CRITERIA FOR DETERMINING THE COMPENSATION AND BENEFITS OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER AS SET BY THE BOARD OF DIRECTORS

The recommendations of the AFEP-MEDEF Code aim to:
- spell out principles for setting the compensation of Company Officers of listed companies;
- prohibit the simultaneous holding of a position as Company Officer 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 Company Officers 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 Company Officers; the latter must also purchase shares at market price additional to any performance-related shares granted to them; and
- make compensation policies more transparent by means of a standardized disclosure format.

The Company declared that it had already been in spontaneous compliance with these recommendations for many years. In particular, the Chairman and Chief Executive Officer holds no employment contract in conjunction with his corporate office; his compensation includes no indemnity relating to the commencement or termination of his function, nor any supplementary retirement plan, stock options, or bonus shares.

2.1 Compensation of the Company Officers

In its amended version of June 21, 2018, the AFEP-MEDEF Code stipulates that the task of determining compensation of the Company Officers is the responsibility of the Board of Directors that appoints them, and is based on proposals submitted by the Compensation Committee. The Board of Directors must give reasons for its decisions in this regard.

In this respect, article 24.1.1 of the AFEP-MEDEF Code states that the compensation of Executive Officers must be "competitive, adapted to the company's strategy and context and must aim, in particular, to improve its performance and competitiveness over the medium and long term, notably by incorporating one or more criteria related to social and environmental responsibility". The compensation must make it possible to attract, retain and motivate high-quality officers.

Article 24.3.2 of the AFEP-MEDEF Code states in particular that "The maximum amount of annual variable compensation must be defined as a percentage of the fixed compensation and must be of a magnitude that is proportionate in the light of this fixed part". Further, article 25.2 of the AFEP-MEDEF Code indicates that "without jeopardizing the confidentiality that may be linked to certain elements in the determination of the variable part of the compensation, this presentation must indicate the breakdown of the qualitative or quantifiable criteria on the basis of which this variable part is determined, their relative importance, the manner in which these criteria have been applied during the financial year and whether the individual targets have been attained".

This has been the Board of Directors' practice at all times, specifying, on the basis of results for the fiscal year ended, how these criteria have been applied.

The principles and rules for determining the compensation and benefits of Company Officers are subject to prior review and recommendation by the Compensation Committee to the Board of Directors. Although it has no decision power, the Compensation Committee notably reviews total compensation and the precise rules for determining the 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 and are then subject to the approval of the shareholders' meeting. All elements of the Company Officers' potential or actual compensation are published on the Company's website after the meeting of the Board of Directors held to approve them.

2.1.1 Policy and criteria governing the compensation of the Chairman and Chief Executive Officer

Policy governing the compensation of the Chairman and Chief Executive Officer

The policy governing the compensation of the Chairman and Chief Executive Officer, adopted by the Board of Directors on July 25, 2018, takes into account the extent of the duties assigned to him. The specific duties of the Chairman and Chief Executive Officer are spelled out in chapter 1.4 of the Internal Rules and Procedures of the Board of Directors. This policy is clear; consistent with the long-term strategy, objectives and challenges of the Group; and directly linked to its performance. It reflects his experience, competencies and responsibilities. It has proved its worth both in tough years and in years of record profits.

The compensation of the Chairman and Chief Executive Officer comprises a fixed portion and an annual variable portion. It does not include any multiyear variable compensation, any exceptional compensation, any form of bonuses, stock options, performance-based shares or other long-term component of compensation, or any indemnity relating to the take-up or termination of his function, nor any supplementary retirement plan.

Each year the Board of Directors starts by determining the amount of target-based total compensation for the year, which comprises a fixed and a variable portion.

The compensation of the Chairman and Chief Executive Officer is paid in its entirety by Lectra SA. He receives 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.

The Chairman and Chief Executive Officer, in his capacity as Chairman of the Board of Directors and Director, also receives Directors' fees allocated to the Board of Directors (see chapter 2.3, "Directors' fees").

The only benefit accorded concerns the valuation for tax purposes of the utilization of a company car; the amount is set out in the Board of Directors' management report.

The Chairman and Chief Executive Officer has never combined his positions as Company Officer with an employment contract, is not entitled to any component of compensation, indemnity or benefit owed or liable to be owed to him in virtue of a termination or change of his functions, or under an additional pension benefits plan or any additional defined benefit pension plan, stock options or bonus shares.

In accordance with the AFEP-MEDEF Code, the table below lists the existence or otherwise of an employment contract, supplementary pension scheme, indemnifications or benefits due or likely to become due as a result of termination or change of position, and indemnifications relating to a non-competition clause.

Daniel Harari, Chairman and Chief Executive Officer

Beginning date of each term of office:

- Chief Executive Officer (Board of Directors meeting of May 3, 2002)
- Director (ordinary shareholders' meeting of April 29, 2016)
- Chairman of the Board of Directors (Board of Directors meeting of July 27, 2017)

End date of term of office as Director: ordinary shareholders' meeting of April 30, 2020

Contract of employment	No
Supplementary pension scheme	No
Indemnifications or benefits due or likely to become due as a result of termination or change of position	No
Indemnifications relating to a non-competition clause	No

Criteria used to determine the compensation of the Chairman and Chief Executive Officer

The variable compensation is calculated on the basis of clear and complementary quantifiable criteria (to the exclusion of any qualitative criteria) expressed in terms of precisely-determined annual targets, reflecting the Company's strategy of profitable sales activity and earnings growth. In accordance with article 24.3.2 of the AFEP-MEDEF Code, these quantifiable criteria are not necessarily financial; they are simple, relevant, suited to the Company's strategy; and they account for the largest share of this compensation.

The Board of Directors meetings of February 9, 2017, and July 27, 2017, maintained for 2017, and through 2019, the four performance criteria reflecting the Company's strategy of profitable sales activity and earnings growth used to determine the variable compensation of the Chairman and Chief Executive Officer as well as their relative weighting, as set in previous years:

- a criterion measuring the contributive value of growth in sales activity (accounting for 50%);
- consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 30%);
- consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after restatement of certain items (accounting for 10%); and
- a criterion measuring the contributive value of recurring contracts (accounting for 10%).

For each of these criteria, the corresponding variable compensation is equal to zero below certain thresholds; 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. The results are then weighted for each criterion. Only the annual targets and corresponding thresholds are revised each year on the basis of Group targets for the fiscal year.

Consequently, variable compensation is equal to zero if none of these thresholds is met, and is capped at 200% of target-based variable compensation if the annual targets are exceeded on all criteria and result in the ceiling of 200% for each of them.
The fixed component and the variable component each account for 50% of the Chairman and Chief Executive Officer's target-based total compensation. Actual total compensation may therefore vary depending on performance, ranging from 50% to 150% of the target-based total compensation. Consequently, variable compensation can range from zero to 200% of the fixed compensation.
Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Compensation Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent and in line with the evaluation of Company Officers' performance, with progress made in implementing the Company's medium-term strategy, 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 Compensation Committee verifies the annual application of these rules and the final amount of variable compensation, on the basis of the audited financial statements.
These criteria and targets apply also to the four members of the Executive Committee who are not Company Officers; the only differences being the weighting given to each criterion and the relative share of their target-based variable compensation, which is specifically geared to each of them and adapted to their duties and targets; their variable compensation thus ranges from 33% to 40% of total target-based compensation. These criteria also apply to certain managers reporting to them, with the same specific features.

2.1.2 Chairman and Chief Executive Officer's compensation for 2017-2019

The Board of Directors meeting of July 27, 2017, decided to set the total annual target-based compensation of the Chairman and Chief Executive Officer to €780,000 for the remainder of 2018 and for the years 2018 and 2019, that is €390,000 in respect of fixed compensation and €390,000 in respect of variable compensation.

2.1.3 Chairman and Chief Executive Officer's 2018 compensation

At the ordinary shareholders' meeting of April 27, 2018 called to approve the financial statements for the fiscal year ended December 31, 2017, the shareholders were invited to vote on the principles and criteria used to determine, apportion and award the fixed and variable components of the total compensation and advantages of all kinds granted to the Chairman and Chief Executive Officer in respect of fiscal year ended December 31, 2018, as adopted by the Board of Directors of February 9, 2017 and July 27, 2017.
The resolution on the compensation of the Chairman and Chief Executive Officer was approved by a 99.98% vote.

Compensation received by the Chairman and Chief Executive Officer for the fiscal year ended December 31, 2018

Daniel Harari, as Chairman and Chief Executive Officer:
- received fixed compensation in the amount of €390,000; and
- was granted by the Board of Directors at its meeting on February 12, 2019 variable compensation in the amount of €282,420, subject to approval by the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2018.

The actual total compensation in respect of fiscal year ended December 31, 2018, subject to approval by the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2018, would come to €672,420, that is 86% of the total target-based compensation (106% in 2017).
In addition, the Board of Directors at its meeting on February 12, 2019, allocated as follows the Director's fees, calculated in proportion to his presence, attributable to Daniel Harari in respect of fiscal year ended December 31, 2018:
- Fixed portion of Director's fee: €15,000; and
- Variable portion of Director's fee: €25,000

Application of performance-related criteria of annual variable compensation for the Chairman and Chief Executive Officer for fiscal year ended December 31, 2018

In 2018, the percentage obtained for each of the four criteria is as follows:

(i) 60% for the contributive value of growth in sales activity (96% in 2017);

(ii) 86% for consolidated income before tax (99% in 2017);

(iii) 22% for consolidated free cash flow (189% in 2017); and

(iv) 143% for the contributive value of recurring contracts (146% in 2017).

In total, the percentage obtained for the variable portion of Daniel Harari's compensation represented 72% of the amount set for achieving the annual objectives (111% in 2017).

2.1.4 Details of the Chairman and Chief Executive Officer's compensation

Following the recommendations in article 26 of the AFEP-MEDEF Code, 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 fiscal year ended December 31, 2018:

	2018			2017		
(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
Daniel Harari, Chairman and Chief Executive Officer						
Fixed compensation	390,000	390,000	100%	311,737	311,737	100%
Variable compensation	390,000	282,420	72%	383,195	426,073	111%
Total	780,000	672,420	86%	694,932	737,810	106%

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 ended December 31, 2018 and amounts actually paid in the year:

	2018		2017	
(in euros)	Amounts earned in respect of the fiscal year	Amounts paid in the year	Amounts earned in respect of the fiscal year	Amounts paid in the year
Daniel Harari, Chairman and Chief Executive Officer				
Fixed compensation	390,000	449,737	311,737	252,000
Variable compensation	282,420	426,073	426,073	310,172
Directors' fees	40,000	40,000	40,000	40,000
Benefits in kind	11,971	11,971	12,816	12,816
Total	724,391	927,781	790,626	614,988

2.1.5 Policy governing the granting of stock options to all beneficiaries and specific policy governing the granting of stock options to the Chairman and Chief Executive Officer

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 the Management Discussion.

Daniel Harari, the only Company Officer, holds no stock options.

2.1.6 Ex-ante and ex-post shareholders' approvals of the Chairman and Chief Executive Officer's compensation

Articles L. 225-37-2 and L. 225-100 of the French Commercial Code require, respectively, (i) a binding annual ex-ante vote by the shareholders' meeting on the principles and criteria used to determine, apportion and award the fixed, variable and exceptional components making up the total compensation and benefits of all kinds granted to the Company Officers, and (ii) a binding annual ex-post vote on the amount of compensation granted to the Company Officers in respect of the prior year. The Chairman and Chief Executive Officer, Daniel Harari, is the only person subject to these provisions.

The annual ex-ante vote applies as from the shareholders' meeting of April 28, 2017, and the corresponding ex-post vote as from the shareholders' meeting called to approve the financial statements for fiscal year ended December 31, 2017.

In the event of failure of the ex-ante vote, the principles and criteria previously approved by the shareholders' meeting will continue to apply.

In the absence of previously approved principles and criteria, compensation is determined according to the compensation granted in respect of the prior fiscal year or, in the absence of compensation granted in respect of the prior fiscal year, in compliance with existing practices within the Company.

In the event of failure of the ex-post vote, the variable or exceptional component cannot be paid to the person concerned.

Pursuant to articles L. 225-37-2 and L. 225-100 of the French Commercial Code:

- the amount of fixed compensation paid and the amount of variable compensation granted in the fiscal year ended December 31, 2018, to Daniel Harari, in his capacity as Chairman and Chief Executive Officer, in accordance with the principles and criteria for compensation approved by the ordinary shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2017 are subject to an ex-post vote by the shareholders at the Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2018; and
- the principles and criteria used to determine, apportion and award the fixed, variable and exceptional components of the compensation granted to Daniel Harari, in his capacity as Chairman and Chief Executive Officer in respect of fiscal year ended December 31, 2019 must be the subject of an ex-ante vote by the Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2018.

The ex-post vote regarding the amount of fixed compensation paid and the amount of variable compensation granted in the fiscal year ended December 31, 2018 and the ex-ante vote of the shareholders regarding the principles and criteria used to determine, apportion and award the fixed, variable and exceptional components of the compensation of the Chairman and Chief Executive Officer in respect of fiscal year ended December 31, 2019, are the subject, respectively, of the sixth and seventh resolutions of the Ordinary Shareholders' Meeting of April 30, 2019, which are printed below.

"Approval of the components of compensation paid or granted in respect of the fiscal year ended December 31, 2018 to Daniel Harari, Chairman and Chief Executive Officer"

The Shareholders' Meeting, consulted pursuant to article L. 225-100 of the French Commercial Code, approves the components making up the total compensation and the benefits of all kinds paid or granted in respect of the fiscal year ended December 31, 2018 to Daniel Harari in his capacity as Chairman and Chief Executive Officer, as they appear in chapter 2, "Principles and criteria used to determine, apportion and award the components making up the total compensation and benefits of all kinds adopted by the Board of Directors and granted to the Chairman and Chief Executive Officer", paragraph 2.1.3, "2018 compensation of the Chairman and Chief Executive Officer", and paragraph 2.1.4, "Details of individual compensation of the Chairman and Chief Executive Officer" in the Report of the Board of Directors on Corporate Governance.

"Approval of the policy governing the compensation of Daniel Harari, the Chairman and Chief Executive Officer, in respect of the fiscal year ending December 31, 2019"

The Shareholders' Meeting, consulted pursuant to article L. 225-37-2 of the French Commercial Code, approves the principles and criteria used to determine, apportion and award the fixed, variable and exceptional components making up the total compensation and benefits of all kinds granted to Daniel Harari, the Chairman and Chief Executive Officer, in respect of the fiscal year ending December 31, 2019, as they appear in chapter 2, "Principles and criteria used to determine, apportion and award the components making up the total compensation and benefits of all kinds adopted by the Board of Directors and granted to the Chairman and Chief Executive Officer", paragraph 2.1.1 "Policy and criteria governing the compensation of the Chairman and Chief Executive Officer" and paragraph 2.1.2 "2017-2019 Compensation of the Chairman and Chief Executive Officer" of the Report of the Board of Directors on Corporate Governance.

2.2 Compensation received by Non-Executive Officers

Non-Executive Officers receive no compensation other than Directors' fees.

2.3 Directors' fees

Aggregate and individual attendance fees paid to Directors and rules governing their distribution

Since the fiscal year ended December 31, 2016, the Board of Directors of the Company has complied with recommendation 20.1 of the AFEP-MEDEF Code:

- adopting a procedure for the allocation of the total Directors' fees decided by the shareholders' meeting, having due regard for the effective attendance of Directors at meetings of the Board of Directors and committees, with a predominantly variable share;
- apportioning an additional amount in Directors' fees to Directors who are not Company Officers for membership of the Board of Directors' specialized committees; and
- apportioning an additional amount to the Chairs of the Audit Committee and the Compensation Committee (the Chairman of the Strategic Committee will receive no additional compensation in respect of this chairmanship).

The variable portion actually apportioned to each Director is based on an attendance percentage equal to the number of meetings effectively attended by the Director divided by the number of meetings held.

Given the rules established by the Board of Directors for the apportionment of Directors' fees, the shareholders' meeting on April 27, 2018 increased the maximum total amount of Directors' fees to €239,000 for fiscal year ended December 31, 2018 and future years, until decided otherwise by the shareholders' meeting.

The Directors' fees are apportioned as follows:

- €40,000 to each of the five Directors for their attendance at meetings of the Board of Directors;
- €12,000 for attendance by each of the four independent Directors at each of the Board of Directors' three committees;
- €1,500 for the Chairs of the Audit Committee and the Compensation Committee.

The variable portion actually apportioned to each Director (100% of each amount) is based on an attendance percentage equal to the number of meetings effectively attended by the Director divided by the number of meetings held.

2018 Directors' fees

(in euros)	Daniel Harari *Chairman and Chief Executive Officer*	Bernard Jourdan *Lead Director*	Anne Binder *Independent Director*	Ross McInnes *Independent Director*	Nathalie Rossiensky *Independent Director*	Total 2018 Directors' Fees
Board of Directors						
Fixed portion	15,000	15,000	15,000	15,000	15,000	75,000
Variable portion	25,000	25,000	25,000	25,000	25,000	125,000
Subtotal	**40,000**	**40,000**	**40,000**	**40,000**	**40 000**	**200,000**
Audit Committee						
Fixed portion		1,125	1,125	1,125	1,125	4,500
Variable portion		1,875	1,875	1,875	1,875	7,500
Chair of the committee		1,500				1,500
Subtotal		**4,500**	**3,000**	**3,000**	**3,000**	**13,500**
Compensation Committee						
Fixed portion		1,125	1,125	1,125	1,125	4,500
Variable portion		1,875	1,875	1,875	1,875	7,500
Chair of the committee		1,500				1,500
Subtotal		**4,500**	**3,000**	**3,000**	**3,000**	**13,500**
Strategic Committee						
Fixed portion		1,125	1,125	1,125	1,125	4,500
Variable portion		1,875	1,875	1,875	1,875	7,500
Subtotal		**3,000**	**3,000**	**3,000**	**3,000**	**12,000**
Total Directors' Fees	**40,000**	**52,000**	**49,000**	**49,000**	**49,000**	**239,000**

2019 Directors' fees

The ordinary shareholders' meeting of April 27, 2018, decided, on a proposal by the Board of Directors, to set the total amount of Directors' fees at €239,000, subject to the allocation rules described above.
This total amount of Directors' fees allocated to the members of the Board of Directors shall be unchanged for fiscal year 2019 and future years, until the shareholders' meeting, consulted on setting a different total amount of Directors' fees, shall decide otherwise.

3. PROHIBITION ON TRADING IN SHARES APPLICABLE TO CERTAIN GROUP MANAGERS

The Board of Directors decided on May 23, 2006, in keeping with the rules on corporate governance, to prohibit members of the corporate management and the senior management teams of the 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 Group. These restrictions are consequently stricter than the obligation to abstain during the closed periods provided for in regulations and Regulation (EU) n° 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse (called the Market Abuse Regulation), along with the AMF Guide on ongoing information and obligations regarding inside information dated October 26, 2016.

However, as the High Committee on Corporate Governance was inclined to accept it in its 2015 report, the Company considered that this prohibition did 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. This exception has now been abolished, and the exercise of stock options during this period is now prohibited, even if the beneficiary holds the resulting shares until its expiration.

However, as permitted under article 19.12 of the Market Abuse Regulation, the Company may authorize a person discharging managerial responsibility to undertake such transactions:

- on a case-by-case basis due to the existence of exceptional circumstances, such as severe financial difficulty, which require the immediate sale of shares; or
- due to the characteristics of the trading involved for transactions made under, or related to, an employee share or saving scheme, qualification or entitlement of shares, or transactions where the beneficial interest in the relevant security does not change.

In compliance with article 18 of the Market Abuse Regulation, the Board of Directors:

- draws up, in an electronic format, a list of all persons who have access to inside information;
- promptly updates the insider list (including the date and time of the update) in the following circumstances:
  - where there is a change in the reason for including a person already on the insider list;
  - where there is a new person who has access to inside information and needs, therefore, to be added to the insider list; and
  - where a person ceases to have access to inside information.
- provides this insider list by electronic means to the AMF as soon as possible at the latter's request;
- retains the insider list and previous versions of it for a period of at least five years after it is drawn up or updated;
- takes all reasonable steps to ensure that any person included in the insider list acknowledges in writing the legal and regulatory duties entailed and is aware of the sanctions applicable to insider dealing and unlawful disclosure of inside information.

The Board of Directors has further decided that, in addition to each of its members, the members of the Executive Committee "discharge managerial responsibilities" within the meaning of the Market Abuse Regulation, have "the power to make management decisions regarding the Company's development and strategy" and "regular access to inside information", within the meaning of article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*), 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.

Alexandra Boisson, the Company's General Counsel, has been named Compliance Officer for all matters pertaining to the General Regulation of the AMF concerning the drawing up of lists of insiders. Her duties include adapting the guidelines published by *Association Nationale des Sociétés par Actions* (National Association of Joint-Stock Companies, ANSA) and drawing up the guide to procedures specific to Lectra, drawing up and maintaining up to

date lists of permanent and occasional insiders, and notifying them individually in writing, accompanied by a memorandum spelling out the procedures specific to Lectra.
The list of permanent insiders is reviewed and approved at least once a year by the Board of Directors.

4. 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 second working day preceding the day set for the said meeting;
- for holders of bearer shares (*actionnaires au porteur*): receipt by the shareholders' 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 second working day preceding the day set for the said meeting, delivered and transmitted to Société Générale 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 submitting their proxy voting form to the Chairman of the meeting, to their spouse or partner, 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 settlement of the disposal takes place before zero hour, Paris time, on the second 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 settlement of the disposal takes place after zero hour, Paris time, on the second working day preceding the day set for the said meeting, the disposal 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 date of the meeting.
Correspondence and proxy voting forms together with all documents and information relating to the meetings are available on the Company's 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.
All correspondence or proxy voting forms sent by mail must be received by Société Générale no later than the day preceding the shareholders' meeting.
Written questions for submission to the meeting may be addressed to the Company at its headquarters: 16-18, rue Chalgrin, 75016 Paris, France, or by electronic mail at the following e-mail address: investor.relations@lectra.com on the fourth working day preceding the day set for the meeting at the latest, and must be accompanied by proof of registration as a shareholder.
Shareholders holding a fraction of the capital defined in articles L. 225-105 paragraph 2 and R. 225-71 paragraph 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.

As required in article R. 225-79 (last paragraph) of the French Commercial Code, notification of designation and revocation of a proxy may also be communicated electronically, by sending an electronically signed e-mail, employing a secure procedure for identification of the shareholder guaranteeing that the notification was effectively sent by the said shareholder, to investor.relations@lectra.com.
Practical details pertaining to the above will be communicated in the notice of meeting sent to the shareholders.

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

Article L. 225-37-5 of the French Commercial Code makes it mandatory for companies whose securities are eligible for trading on a regulated market to disclose and where applicable explain the following items if they are liable to be material in the event of a public tender offer:

- the structure of the Company's capital stock;
- any restrictions contained in the by-laws on the exercise of voting rights and on the transfer of shares, or clauses contained in agreements notified to the Company in application of article L. 233-11 of the French Commercial Code;
- direct or indirect shareholdings in the capital of the Company known to it in virtue of articles L. 233-7 and L. 233-12 of the French Commercial Code;
- the list of holders of any securities carrying special control rights and the description thereof;
- control mechanisms provided for in the event of an employee share ownership system, when the employees do not exercise controlling rights;
- agreements between shareholders that are known to the Company and that may entail restrictions on the transfer of shares and on the exercise of voting rights;
- the rules governing the appointment and replacement of members of the Board of Directors and amendments to the Company by-laws;
- the powers of the Board of Directors and in particular concerning the issuance or buyback of shares;
- agreements entered into by the Company that will be modified or terminated in the event of change of control of the Company, unless such disclosure, other than where legally required, would be seriously prejudicial to the Company; and
- 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.

6. RELATED-PARTIES AGREEMENTS SUBJECT TO ARTICLES L. 225-38 ET SEQ. OF THE FRENCH COMMERCIAL CODE PURSUANT TO ARTICLE L. 225-37-4,2° OF THE FRENCH COMMERCIAL CODE

No related-parties agreements were entered into during the fiscal year ended December 31, 2018.
We also report to you that the list and purpose of agreements relating to current operations concluded under normal conditions has been communicated to the members of the Board of Directors and to the Statutory Auditors in accordance with the provisions of article L. 225-39 of the French Commercial Code.

7. SUMMARY TABLE OF AUTHORITY TO INCREASE CAPITAL GRANTED BY THE SHAREHOLDERS' MEETING

In accordance with the provisions of article L. 225-37-4, 3° of the French Commercial Code, a summary table of the current authorizations granted by the shareholders' meeting to the Board of Directors with regard to share capital increases, subject to articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code, and of the use made thereof by the Board of Directors during the fiscal year, is attached to this report.
The extraordinary shareholders' meeting of April 27, 2018 authorized the issuance of shares within the framework of a stock option plan for a period of thirty-eight months expiring on June 27, 2021 (see chapter 7 in Management Discussion). 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, 2014.

Schedule of authority to increase the capital at the close of fiscal year 2018

Type of issue	Authorization date	Maturity	Term	Maximum amount	Utilization
Stock options(1)	April 27, 2018	June 27, 2021	38 months	Capital: €2,000,000	Amount utilized: €325,791
Total authorized, unexpired and unutilized at December 31, 2018				**€1,674,209**	

(1) The shareholders' meeting of April 27, 2018 authorized the creation of a new stock option plan for a maximum of 2,000,000 shares with a par value of €1.00. The maximum amount and amounts utilized at December 31, 2018 are in par value of shares; 325,791 options had been utilized, and 1,674,209 remained at the Board of Directors' disposal (see note 15.5 to the consolidated financial statements).

The Board of Directors
February 26, 2019

Statement of financial position
consolidated

ASSETS

At December 31

(in thousands of euros)		2018	2017
Goodwill	note 6	39,473	32,105
Other intangible assets	note 7	3,688	3,402
Property, plant and equipment	note 8	26,347	24,444
Other non-current assets [(1)]	note 9	14,425	15,373
Deferred tax assets	note 11	9,194	9,266
Total non-current assets		93,127	84,590
Inventories	note 12	34,326	31,133
Trade accounts receivable	note 13	58,564	55,065
Other current assets [(1)]	note 14	15,447	15,912
Cash and cash equivalents	note 18	102,223	98,134
Total current assets		210,560	200,244
Total assets		**303,687**	**284,834**

EQUITY AND LIABILITIES

(in thousands of euros)		2018	2017
Share capital	note 15	31,847	31,571
Share premium	note 15	13,843	12,270
Treasury shares	note 15	(560)	(298)
Currency translation adjustments	note 16	(9,554)	(9,872)
Retained earnings and net income		134,802	117,538
Total equity		170,377	151,209
Retirement benefit obligations	note 17	9,823	9,518
Borrowings, non-current portion	note 18	-	-
Total non-current liabilities		9,823	9,518
Trade and other current payables	note 19	59,664	62,399
Deferred revenues	note 20	56,225	53,013
Current income tax liabilities	note 11	3,488	4,965
Borrowings, current portion	note 18	-	-
Provisions for other liabilities and charges	note 21	4,110	3,730
Total current liabilities		123,487	124,107
Total equity and liabilities		**303,687**	**284,834**

(1) The Group now presents separately the current and non-current portion of the income tax receivable related to the French research tax credit. Consequently, the 2017 amounts have been restated accordingly: an amount of €12,807,000 was reclassified for 2017, from 'Other current assets' (which amounted to €28,719,000) to 'Other non-current assets' (which amounted to €2,566,000).

The notes are an integral part of the consolidated financial statements.

Income statement
consolidated

Twelve months ended December 31

(in thousands of euros)		2018	2017 [1]
Revenues	note 24	282,558	277,201
Cost of goods sold	note 25	(79,014)	(75,269)
Gross profit	note 25	203,544	201,932
Research and development	note 26	(21,497)	(19,807)
Selling, general and administrative expenses	note 27	(141,798)	(142,851)
Income from operations		40,249	39,274
Financial income	note 30	231	223
Financial expenses	note 30	(443)	(493)
Foreign exchange income (loss)	note 31	(1,120)	(574)
Income before tax		38,917	38,431
Income tax	note 11	(10,177)	(9,166)
Net income		**28,740**	**29,264**

(in euros)			
Earnings per share:	note 32		
- basic		0.91	0.93
- diluted		0.89	0.90
Shares used in calculating earnings per share:			
- basic		31,697,500	31,403,960
- diluted		32,333,069	32,343,804

(1) In 2018, the scope of R&D teams was reviewed to encompass the teams involved in the design and development of Lectra's offer. The 2017 amounts have been restated to allow for comparison with 2018: 'Research and development' expenses published in 2017 amounted to €17,690,000 and 'Selling, general and administrative expenses' to €144,968,000.

STATEMENT OF COMPREHENSIVE INCOME

Twelve months ended December 31

(in thousands of euros)		2018	2017
Net income		28,740	29,264
Currency translation adjustments	note 16	288	(1,017)
Tax effect		30	(318)
Other comprehensive income to be reclassified in net income		318	(1,335)
Remeasurement of the net liability arising from defined benefits pension plans	note 17	156	(173)
Tax effect		(54)	52
Other comprehensive income not to be reclassified in net income		102	(121)
Total other comprehensive income		420	(1,456)
Comprehensive income		**29,159**	**27,808**

The notes are an integral part of the consolidated financial statements.

Statement of cash flows

consolidated

Twelve months ended December 31

(in thousands of euros)		2018	2017
I - OPERATING ACTIVITIES			
Net income		28,740	29,264
Net depreciation, amortization and provisions		8,380	7,910
Non-cash operating expenses	note 35	343	1,143
Loss (profit) on sale of fixed assets		(13)	46
Changes in deferred income taxes	note 11	61	(658)
Changes in inventories		(4,918)	(7,112)
Changes in trade accounts receivable		(82)	3,464
Changes in other current assets and liabilities (1)		1,319	11,487
Changes in other operating non-current assets (1)	note 9	(5,047)	(4,519)
Net cash provided by (used in) operating activities	note 36	28,783	41,027
II - INVESTING ACTIVITIES			
Purchases of intangible assets	note 7	(1,736)	(817)
Purchases of property, plant and equipment	note 8	(5,809)	(6,747)
Proceeds from sales of intangible and tangible assets		22	4
Acquisition cost of companies purchased	note 2	(7,102)	-
Purchases of financial assets	note 9	(5,180)	(5,153)
Proceeds from sales of financial assets	note 9	5,551	4,879
Net cash provided by (used in) investing activities		(14,254)	(7,834)
III - FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	note 15	1,849	1,682
Dividends paid	note 4	(12,022)	(10,977)
Purchases of treasury shares	note 15	(5,445)	(4,814)
Sales of treasury shares	note 15	5,110	4,646
Net cash provided by (used in) financing activities		(10,508)	(9,463)
Increase (decrease) in cash and cash equivalents		**4,021**	**23,730**
Cash and cash equivalents at opening	note 18	98,134	75,696
Increase (decrease) in cash and cash equivalents		4,021	23,730
Effect of changes in foreign exchange rates		68	(1,291)
Cash and cash equivalents at closing	note 18	102,223	98,134
Net cash provided by (used in) operating activities		28,783	41,027
+ Net cash provided by (used in) investing activities		(14,254)	(7,834)
- Acquisition cost of companies purchased		7,102	-
Free cash flow	note 38	21,631	33,193
Income tax (paid) / reimbursed, net		(6,391)	(4,730)
Interest paid		-	-

(1) The Group now presents separately the current and non-current portion of the income tax receivable related to the French research tax credit. Thus, 'Changes in other operating non-current assets' corresponds to the research tax credit for the period, after deduction from the corporate income tax due by Lectra SA, which will be repaid in the course of the fourth year. Consequently, the 2017 amounts have been restated accordingly: 'Changes in other operating non-current assets' did not exist, and 'Changes in other current assets and liabilities' amounted to €6,968,000.

The notes 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: Number of shares	Share capital: Par value per share	Share capital: Share capital	Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
Balance at January 1, 2017		31,247,554	1.00	31,248	10,912	(91)	(8,537)	99,052	132,583
Net income								29,264	29,264
Other comprehensive income							(1,335)	(121)	(1,456)
Comprehensive income							(1,335)	29,143	27,808
Exercised stock options	note 15	323,542	1.00	324	1,358				1,682
Fair value of stock options	note 15							296	296
Sale (purchase) of treasury shares	note 15					(207)			(207)
Profit (loss) on treasury shares	note 15							25	25
Dividend paid	note 4							(10,977)	(10,977)
Balance at December 31, 2017		31,571,096	1.00	31,571	12,270	(298)	(9,872)	117,538	151,209
Net income								28,740	28,740
Other comprehensive income							318	102	420
Comprehensive income							318	28,842	29,159
Exercised stock options	note 15	275,661	1.00	276	1,573				1,849
Fair value of stock options	note 15							493	493
Sale (purchase) of treasury shares	note 15					(262)			(262)
Profit (loss) on treasury shares	note 15							(49)	(49)
Dividend paid	note 4							(12,022)	(12,022)
Balance at December 31, 2018		**31,846,757**	**1.00**	**31,847**	**13,843**	**(560)**	**(9,554)**	**134,802**	**170,377**

The notes 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 SA, hereafter the Company, and its subsidiaries. The Group's consolidated financial statements were drawn up by the Board of Directors on February 26, 2019 and will be proposed to the Shareholders' Meeting for approval on April 30, 2019.

NOTE 1. BUSINESS ACTIVITY

A French high technology company, Lectra has developed privileged and long-term relationships with its customers in over 100 countries. They all have operational excellence in common and the soft materials they use – fabrics and leather, but also technical textile and composite materials – to manufacture their products (garments, shoes and luggage, car seats and interiors, airbags, sofas…).
In order to increase customers' competitiveness, Lectra creates premium technologies specifically for its customers' markets – mainly fashion, automotive and furniture. Lectra's solutions, combining software, automated cutting equipment and associated services, enable customers to automate and optimize product design, development and manufacturing, and to digitalize their processes.
Lectra's offer supports customers to achieve their strategic objectives: to boost productivity; to reduce cutting costs; to reduce time-to-market; to meet the challenges of globalization; to enhance product quality; to increase production capacity; and to develop their brands. In addition, customers now face challenges specific to Industry 4.0, such as securing digital communications along an extended supply chain, and making the factory more agile.
Established in 1973, Lectra has been listed on Euronext Paris since 1987.

Business model

Lectra's business model is based on three pillars:

- the distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and the very large number of customers throughout the world;
- a balanced revenue mix between revenues from new systems sales and recurring revenues;
- the generation of significant annual free cash flow.

Worldwide presence

Since the mid-1980s Lectra, with headquarters located in France, has established its global footprint. The Group supports customers through its unrivalled network of 32 sales and services subsidiaries, from which Lectra generates over 90% of revenues.

Lectra also has an International Advanced Technology & Conference Center in Bordeaux-Cestas (France) where the Company welcomes customers from all over the world, and five international Call Centers, based in Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) and Shanghai (China).

Customers

From global corporations to smaller national companies, Lectra's customers are, for the most part, fashion and apparel brands, manufacturers and retailers, automotive equipment manufacturers and subcontractors, and furniture brands and manufacturers.

Products and services

The Group markets end-to-end integrated technology solutions: software, automated cutting equipment services. The distinctive feature of Lectra's offer is to integrate business expertise with the best industrial practices for each market sector. All Lectra software and equipment, including electronics, are designed and developed in-house.
Equipment is assembled from parts produced by a network of subcontractors and tested in the Company's industrial facilities in Bordeaux-Cestas (France). Since 2007, cutting machines on the market incorporate hundreds of sensors which connect them to Lectra's Call Centers, enabling preventive and predictive maintenance.
The services include technical maintenance, support, training, consulting, as well as the sale of consumables and parts.

People

Lectra's strength lies in the skills and experience of the Group's global 1,700 employees: 850 in France and 850 in the sales and services subsidiaries.
Thanks to Lectra's global presence the Group is geographically close to its customers, wherever they are in the world.

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:
https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

The consolidated financial statements at December 31, 2018 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2017 financial statements, with the exception of the two standards and interpretation presented below. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 26, 2019 and audited by the Statutory Auditors.

The Group has not early adopted any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2018. The Group is currently finalizing the impacts of IFRS 16 – *Leases*, which will be applicable from January 1, 2019.

Moreover, the analysis performed showed that the implementation of IFRIC 22 – *Foreign currency transactions and advance consideration* as from January 1, 2018 had no significant impact on the Group's financial statements.

Implementation of IFRS 15 – *Revenue from contracts with customers*

The Group has adopted, as from January 1, 2018, the new standard IFRS 15 – *Revenue from contracts with customers.*

Under the model established by the standard, in five steps, the Group's main analysis focused on identifying the performance obligations that its multiple-element contracts comprised and the allocation of the transaction price according to the stand-alone selling price of each of the performance obligations.

New systems sales amounted to €122.7 million in 2018. Contracts with customers comprise multiple performance obligations such as: CAD/CAM equipment, CAD/CAM and PLM software, training and consulting, installation, maintenance, evolution and online services contracts for equipment and software. Software sales are only recognized separately when the customer can benefit from the software independently from the other goods and services promised in the contract; in particular, the software accompanying CAD/CAM equipment are not recognized separately from these. The Company has determined stand-alone selling prices of the multiple elements by using observable data as much as possible. For elements which are not sold separately on a customary basis, stand-alone selling prices have been estimated based on the Company's pricing policy, reflecting expected costs plus an appropriate margin. Allocating the transaction prices based on stand-alone selling prices leads to non-significant differences with the current accounting practices.

The Group does not incur incremental costs to obtain a contract with its customers, which should have been recognized as assets. The other analysis axes recommended by the standard (in particular: warranties, revenue recognition date for CAD/CAM equipment sales, measurement of completion for evolution, maintenance and on-line services for the solutions sold) have not raised any significant difference with the accounting principles used until then.

The Group has opted to apply IFRS 15 retrospectively and recognize the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings as of January 1, 2018. This effect being immaterial, no restatement was made.

Thus, implementing IFRS 15 does not change the Group's accounting principles, either on allocating revenue to the contracts' separate elements or on timing differences for revenue recognition.

Implementation of IFRS 9 – *Financial instruments*

The Group has adopted, as from January 1, 2018, the new standard IFRS 9 – *Financial instruments*.

The new provisions of IFRS 9 concerning the booking and evaluation of financial assets have been applied retrospectively.

The main impacts of these provisions are as follows:

- classification of financial assets: non-consolidated shares are now accounted for at fair value through P&L according to IFRS 9, since the IAS 39 exemption to maintain them at cost no longer exists under IFRS 9; this change had no significant impact;
- evaluation of accounts receivable: IFRS 9 replaces the 'incurred losses' model from IAS 39 by the 'expected credit losses' model. Thus, credit losses are now accounted for earlier under IFRS 9 than under IAS 39; these new provisions had no significant impact.

Moreover, the Group does not apply hedge accounting and is not impacted the relating provisions of IFRS 9.

Implementation of IFRS 16 – *Leases* at January 1, 2019

The Group will apply, as from January 1, 2019, the new standard IFRS 16 – *Leases*.

The Group rents its office locations in most of the countries where it operates, with the notable exception of the Bordeaux-Cestas site in France, which it owns. Moreover, the contracts entering the scope of IFRS 16 also include vehicle rentals and IT equipment leases.

Until now, every lease contract was qualified either as finance lease or an operating lease, with a distinct accounting treatment for each category. In application of IFRS 16, all lease contracts will now be recognized as assets by way of booking a right-of-use, and as liabilities with a debt corresponding the discounted value of future payments. Nonetheless, the standard provides exemption for short-term rentals (less than 12 months) or those relating to low-value assets (the Group set its threshold at $5,000). The Group intends to use both exemptions.

The lease term is defined contract by contract and corresponds to the non-cancellable period of a lease, together with both periods covered by an option to extend the lease which will be reasonably certainly exercised and periods covered by an option to terminate the lease which are certain not to be exercised.

The discount rates used by the Group correspond to the rates at which the Group companies would be able to subscribe a financial borrowing (incremental borrowing rate).

The Group opted for the simplified retrospective transition method which will entail accounting for the cumulative effect of initially applying the standard as an adjustment to the opening equity at January 1, 2019, considering that the asset relating to the right-of-use will be equal to the lease payments debt, adjusted for prepaid lease payments and lease incentives received from lessors. Moreover, the following simplification measures will be applied at the transition date:

- contracts with a residual term under 12 months at January 1, 2019 will not give rise to an asset and a debt;
- a single discount rate will be used for a portfolio of leases with similar characteristics. The discount rates applied at the date of implementation will be based on the incremental borrowing rate by entity and by currency, taking into account the economic environment of each country. Moreover, on the transition date, the discount rates will be determined based on the residual term of the contracts.

The impacts of the first of application of IFRS 16 on the opening balance sheet will be as follows:

- the booking of additional rights-of-use and lease obligations, for an amount comprised between €17 and €19 million;
- the reclassification of prepaid lease payments as an increase to the rights-of-use.

This amount is lower than the total of commitments given disclosed in note 23. Indeed, these also include the following elements, which are excluded from the scope of IFRS 16:

- short-term contracts (less or equal to 12 months);
- contracts relating to low-value assets;
- contracts not relating to identifiable underlying assets (mainly service contracts and software rental contracts).

Finally, the last significant difference comes from the fact that lease obligations under IFRS 16 are discounted (discounted value of future payments), when commitments given disclosed in note 23 are not.

NOTE 2.2 BASIS FOR PREPARATION

The Group's consolidated financial statements are prepared on a historical cost basis with the exception of the assets and liabilities listed below:

- cash equivalents, recorded at fair value through profit or loss;
- loans and receivables, together with borrowings and financial debts, trade payables and other current financial liabilities, recognized at their amortized cost;
- derivative financial instruments, recorded at fair value through profit or loss, or other comprehensive income. The Group uses such instruments to hedge its foreign exchange risks (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 twelve 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 twelve months after the close of the financial year.

NOTE 2.3 GOODWILL

Goodwill solely relates to controlled entities. Other interests held are either accounted for under the equity method for entities held under significant influence, or classified as non-current financial assets.
Goodwill is calculated at the acquisition date, as the difference between (i) the total of the fair value of the consideration transferred and the amount of non-controlling third-party interest in the acquiree, and (ii) the net of the amounts of the identifiable assets acquired and the liabilities assumed.
Goodwill recognized in a foreign currency is translated at the year-end exchange rate.
Each goodwill is allocated to one or several Cash Generating Units (CGU) defined as being a sales subsidiary or group of more than one sales subsidiaries, generating cash inflows largely independent from the other assets.
Taking into account expected future revenue streams, goodwill is tested for possible impairment loss for each CGU at each closing date, or during the year when there is indication that it may be impaired.

NOTE 2.4 OTHER INTANGIBLE ASSETS

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

Information management software

This item contains only software utilized for internal purposes.
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 ASSETS 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 subject to impairment testing. Impairment tests on goodwill are carried out systematically at least once a year.
In order to be tested, assets are regrouped within Cash Generating Units (CGU), defined as the smallest group of assets generating cash inflows deriving from their continuous use, largely independent from cash inflows generated by other assets. The Group has defined its CGUs as being its operating subsidiaries or in some cases a group of several subsidiaries.
Goodwill resulting from business combinations is allocated to the CGUs likely to benefit from the combination synergies.

Goodwill

Goodwill is tested for impairment by comparing its carrying value with the recoverable amount of the CGU it has been allocated to, 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 equipment are tested by comparing the carrying value of each relevant group of assets (which may be an isolated asset or a CGU) 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. 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 OTHER NON-CURRENT ASSETS

This item mainly comprises the long-term portion of the research tax credit receivable, investments in subsidiaries and receivables relating to financial investments in non-consolidated companies.
Investments in subsidiaries are recorded at fair value through profit or loss, as required by IFRS 9.

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 fiscal 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 (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.
The purchase cost of raw materials and the industrial cost of works-in-progress and finished goods is calculated with the weighted-average cost method.
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 the net realizable value is lower than the book value.
Write-downs on inventories of consumables and parts 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 based on expected credit losses over the lifetime of receivables according to IFRS 9 and also 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 periods, 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 if any. Cash equivalents comprise negotiable certificates of deposit issued by the Company's banks. Interest-bearing sight accounts and time deposits opened in the Company's banks are treated as cash. All these holdings are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, as specified by IAS 7.
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 18.2) 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 through profit or loss.

NOTE 2.12 CAPITAL MANAGEMENT POLICY

In managing its capital, the Group seeks to achieve the best possible return on capital employed.
The liquidity of Lectra's shares on the stock market has been ensured by means of a liquidity agreement with Exane BNP Paribas (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. The Chairman and CEO, holding more that 10% of the Company's share capital, is not eligible to any stock options program. 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 (see note 15.5).

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, for the options granted before September 28, 2012. Those granted after this date are no longer concerned, as tax and social security regulations have changed.

The application of IFRS 2 has resulted in the recognition of an expense corresponding to the fair value of the advantage granted to beneficiaries.

This expense is recognized in personnel costs with a counterpart in equity. 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 Group has had no borrowing or financial debt since March 31, 2015.

NOTE 2.15 RETIREMENT BENEFITS OBLIGATIONS

The Group is subject to a variety of deferred employee benefits plans, in France or depending on the subsidiary concerned. The only deferred employee liabilities are retirement benefits 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, as are 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.

Defined benefits 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 industry-wide 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 investment-grade 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.

Actuarial gains and losses are recognised in other comprehensive income, in accordance with the principles set forth in IAS 19.

The relevant portion of any change in past-service cost is recognised immediately as a loss (in the case of an increase) or as a gain (in the case of a reduction) in the income statement when a plan is amended, in accordance with the principles set forth in IAS 19.

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 reversal is deducted from the corresponding expenses.

Provision 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 of the booking of the sale generating a contractual obligation of warranty.

NOTE 2.17 TRADE PAYABLES

Trade accounts 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

Contracts with customers comprise multiple obligations such as: CAD/CAM equipment, CAD/CAM and PLM software, consumables and parts, training and consulting, installation, maintenance, evolution and online services contracts for equipment and software.

Software sales are only recognized separately when the customer can benefit from the software independently from the other goods and services promised in the contract. In particular, the software accompanying CAD/CAM equipment (called pilots) are not recognized separately from these, as they are an integral part to the equipment, allowing it to work: without the pilot, the equipment would be useless, and without the equipment, the pilot has no use either. However, specialized software (for instance, software for collection management, pattern-making, simulation), under perpetual license, usually installed on the clients' computers, sold separately from the equipment on a regular basis, are considered separate performance obligations.

The other obligations are considered as separate under IFRS 15 and are thus accounting for based on the following elements among others:

- installation of equipment and specialized software is made in a few days, easy to implement, and does not modify their characteristics;
- training is short-term and had no interdependence relationship with the other obligations;
- consulting usually regards the optimization of clients' production and is very often sold separately to clients;
- regarding maintenance, assistance and evolution online services are yearly contracts in which the Group's commitment is a stand-ready type, or an obligation to make future not-yet-planned versions of the software available. The solutions (equipment and software) are distinct from maintenance / assistance / evolution since they are entirely ready to work upon delivery and since maintenance / assistance / evolution services are not critical for the client in order to use the solution. Equipment is sold most often with one or two years of maintenance, and the client holds renewal options that are not discounted compared to the initial price for subscribing maintenance. Renewal options are thus not considered as significant rights that would require separate accounting under IFRS 15.

The Company determines stand-alone selling prices of the multiple elements by using observable data as much as possible. For elements which are not sold separately on a customary basis, stand-alone selling prices are estimated based on the Company's pricing policy, reflecting expected costs plus an appropriate margin.

Revenue from sales of equipment (including pilot software) is recognized when the control has been transferred to the purchaser. These conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.

Software sold as perpetual licenses is regarded as right-of-use licenses under IFRS 15, for which revenue is booked at a certain date, generally the

time of installation of the software on the customer's computer (either by CD-ROM or downloading).
Revenue from subscription sales of software is spread over the duration of the customer's commitment.
Revenue from training and consulting is recognized based on the completion of hours or days of work performed by the teams.
Revenue from equipment and specialized software installation is recognized when these services are rendered.
Revenue from maintenance / assistance / evolution online contracts is spread linearly over the duration of the contracts, as they are 'stand-ready obligations'.
Equipment is designed, made and assembled by the Group from parts produced by a network of subcontractors. Lectra acts as principal in the sale of equipment insofar as parts only constitute inputs used in the manufacturing of finished goods sold to customers.

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, setting the stage for their commercialization. Consequently, the technical and economic criteria requiring the recognition of development costs in assets at the moment they occur are not met, and these, together with research costs, are therefore fully expensed in the period in which they are incurred.
The (French) research tax credit (*crédit d'impôt recherche*) and the portion of the competitiveness and employment tax credit (*crédit d'impôt compétitivité et emploi*) relating to R&D personnel, as well as grants linked to R&D projects, if any, are deducted from R&D expenses.

NOTE 2.21 GRANTS

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 research tax credit is treated as a subsidy and is discounted in light of the probability of future offsetting against income tax and in light of reimbursement of the unused portion after four years (see notes 9 and 14).

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 unusual, 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 by 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 Group's performance tracking and review systems.
The operating segments disclosed in note 34 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the Group's 'chief operating decision maker'.
Operating segments refer to the major marketing regions that combine countries with similar economic characteristics in terms of type of product and service, customer type and distribution method. 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, production, R&D, finance, legal affairs, human resources, information systems, etc. All of these cross-divisional activities are reported as an additional operating segment referred to here as the 'Corporate' segment.
Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external customers; all inter-segment billings are excluded from this item.
The gross profit margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include added value 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 profit is retained in the income computed for the Corporate segment in order to cover its costs. Since most of the Corporate segment's general overheads are fixed, its profit margin and consequently its income from operations depend mainly on the volume of business generated by marketing regions.

NOTE 2.25 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.

NOTE 2.26 SECURITY RATIO

The security ratio is defined by the Group as the percentage of annual fixed overhead costs covered by gross profit on recurring revenues.

NOTE 2.27 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.
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 fixed assets, deferred tax assets (see note 11.3), and estimates and judgement related to revenue recognition (notes 2.18 and 24).

NOTE 2.28 TRANSLATION METHODS

Translation of financial statements of foreign subsidiaries

For most subsidiaries, the 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 other comprehensive income 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 other comprehensive income 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 OF MAIN CURRENCIES

(equivalent value for 1 euro)	2018	2017
US dollar		
Annual average rate	1.18	1.13
Closing rate	1.15	1.20
Chinese yuan		
Annual average rate	7.81	7.63
Closing rate	7.86	7.84

NOTE 2.29 CONSOLIDATION METHODS

The consolidated financial statements include the accounts of the parent company Lectra SA and the subsidiaries the Group controls. The Group controls a subsidiary when it is exposed or has rights to variable earnings due to its links with the entity and its ability to change these earnings owing to the power it holds over the entity.

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.

Lectra SA 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 Lectra SA. They are designated NC (non-consolidated) in the schedule.

Companies are consolidated on the basis of local 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, 2018, the Group's scope of consolidation comprised Lectra SA together with 29 fully-consolidated companies.

Company	City	Country	% of ownership and control		Consolidation method [(1)]	
			2018	2017	2018	2017
Parent company						
Lectra SA	Cestas	France			FC	FC
Subsidiaries						
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	Herning	Denmark	100.0	100.0	FC	FC
Lectra Baltic Oü	Tallinn	Estonia	100.0	100.0	FC	FC
Lectra Suomi Oy	Helsinki	Finland	100.0	100.0	FC	FC
Lectra Deutschland GmbH	Munich	Germany	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
Kubix Lab Srl	Vicenza	Italy	100.0	-	FC	-
Lectra Japan Ltd	Osaka	Japan	100.0	100.0	FC	FC
Lectra Systèmes SA de CV	Mexico	Mexico	100.0	100.0	FC	FC
Lectra Maroc Sarl	Casablanca	Morocco	99.4	99.4	FC	FC
Lectra Portugal Lda	Porto	Portugal	99.9	99.9	FC	FC
Lectra Russia OOO	Moscow	Russia	100.0	100.0	FC	FC
Lectra South Africa (Pty) Ltd	Durban	South Africa	100.0	100.0	FC	FC
Lectra Korea Ltd	Seoul	South Korea	100.0	100.0	FC	FC
Lectra Sistemas Española SAU	Madrid	Spain	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 Tunisie SA	Tunis	Tunisia	99.8	99.8	FC	FC
Lectra Tunisie CP SARL	Tunis	Tunisia	100.0	100.0	FC	FC
Lectra Systemes CAD - CAM AS	Istanbul	Turkey	99.0	99.0	FC	FC
Lectra UK Ltd	Greengates	United Kingdom	99.9	99.9	FC	FC
Lectra USA Inc.	Atlanta	USA	100.0	100.0	FC	FC
Công Ty TNHH Lectra Vietnam	Hô-Chi-Minh-City	Vietnam	100.0	100.0	FC	FC
Lectra Chile SA	Santiago	Chile	99.9	99.9	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

In January 2018, the Group purchased the Italian company Kubix Lab. Founded at the end of 2015, Kubix Lab develops a cutting-edge technological offer called Link. This offer enables fashion brands to manage, from end-to-end, all product information deriving notably from multiple IT systems within one single application.

The entire acquisition of the capital of Kubix Lab was made for an amount of €7,178,000:

- €3,000,000 paid in cash when the acquisition agreement was signed;
- €1,300,000 and €2,700,000 to be paid respectively 18 and 36 months after the signature, providing objectives are met;
- A price adjustment of €178,000 relating to previous years' earnings that had not been distributed to the previous shareholders prior to the acquisition.

As the Company believes the probability of objectives being met as high, and as the conditional amounts were already paid out on an escrow account, the acquisition cost for Lectra has been entirely disclosed under the heading 'Acquisition cost for companies purchased' in the statement of cash flows, net of cash acquired, for an amount of €7,102,000.

Kubix Lab has been fully consolidated since January 26, 2018.

Finally, the purchase price accounting has been finalized and the main impact on the Group's financial statements is the goodwill recorded for an amount of €6,964,000 (see note 6).

There was no other change in the scope of consolidation during 2018.

In June 2017, the Group had liquidated its subsidiary Lectra Hellas EPE (Greece), which had had no activity for years. This liquidation had no impact on the statement of financial position, income statement and cash position of the Group.

In October 2017, the Group had also liquidated its subsidiary Lectra Israel Ltd, which was not consolidated (liquidation with no impact on the income statement and cash position of the Group, and the impact of the statement of financial position is described in note 9).

There was no other change in the scope of consolidation in 2018 and 2017.

In view of the parent company's percentage of interest in its consolidated subsidiaries, non-controlling interests are immaterial and are therefore not shown in the financial statements.

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 — Internal Control And Risk Management Procedures and in chapter 13, Business Trends and Outlook, to which readers are invited to refer.

NOTE 3.1 SPECIFIC FOREIGN EXCHANGE RISKS – DERIVATIVE FINANCIAL INSTRUMENTS

Exchange rate fluctuations impact the Group at two levels.

Competitive impact

The Group sells its products and services in global markets. It manufactures its equipment in France, whereas many of its competitors, especially its main competitor, a US company, manufacture their equipment in China. As a result, their production costs are primarily in Chinese yuan, while those of the Group are in euros. Meanwhile, sales prices in many markets are in US dollars or euros. The exchange rates between these three currencies have, therefore, a competitive impact.

Currency translation impact

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

In the statement of financial position, 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 US dollar.

The Group generally seeks to hedge the risk arising in respect of its net operational exposure to the US dollar (revenues less all expenses denominated in US dollars or strongly correlated currencies) by purchasing dollar puts (or euro calls) or by forward currency contracts, when justified by the cost of the hedge. This was not the case in 2018.

The Group's statement of financial position exposure is monitored in real time; it uses forward currency contracts to hedge all relevant receivables and debts. Consequently, all changes in the value of these instruments offset foreign exchange gains and losses on the re-measurement of these receivables and debts. The Group does not apply hedge accounted as defined by the IFRS.

NOTE 3.2 INTEREST RATE RISK

Since the Group no longer has financial debt, it is not exposed to interest-rate risk.

It follows a conservative policy in short-term investing its cash surpluses, placing them only in negotiable certificates of deposit issued by the Company's banks, or in interest-bearing sight accounts or time deposits.

NOTE 3.3 CUSTOMER DEPENDENCY RISK

There is no material risk of dependence on any particular customer or group of customers, as no individual customer has represented more than 5% of consolidated revenues over the last three-year period 2016-2018, and the Company's 10 largest customers combined has represented less than 20% of revenues, and the top 20 customers less than 27%.

NOTE 3.4 CREDIT AND COUNTERPARTY RISKS

The Group is exposed to credit risks in the event of customer insolvency or default, which can negatively impact Group profit. The Group pays close attention to the security of payment for the systems and services delivered to its customers. It manages this risk via a range of procedures, which include in particular preventively analyzing its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears.

The Group's exposure to counterparty risk is very low. It arises from its cash holdings, only consisting in interest-bearing sight accounts held with blue-chip international banks, and contracts entered into within the framework of its policy on foreign exchange risk hedging, negotiated exclusively in France with the Company's three banks. The corresponding asset values are monitored regularly.

NOTE 3.5 LIQUIDITY RISK

The main indicator monitored by the Group in order to measure a possible liquidity risk is available cash. This indicator is compared against cash forecasts over a three-month time horizon.

The risk that the Group may have to contend with a short-term cash shortage is close to zero. The Group's free cash represents a substantial and sufficient liquidity reserve.

Thanks to its structurally negative or near-zero working capital requirement, any cash flows generated by the Group bolster its liquidity.

NOTE 4. DIVIDEND

The Board of Directors has proposed to the Shareholders' Meeting on April 30, 2019 to declare a dividend of €0.40 per share in 2019 in respect of fiscal year 2018.

The Company declared a dividend of €0.38 per share in 2018, in respect of fiscal year 2017.

NOTE 5. POST-CLOSING EVENTS

No significant event has occurred since December 31, 2018.

NOTE 6. GOODWILL

The acquisition of Kubix Lab in January 2018 has generated a goodwill for an amount of €6,964,000.
This goodwill stems from a total acquisition price of €7,178,000, of which:

- €3,000,000 paid in cash when the acquisition agreement was signed;
- a price adjustment of €178,000 relating to previous years' earnings that had not been distributed to the previous shareholders prior to the acquisition.

Thus, there remains an earn-out of €4,000,000, split between €1,300,000 and €2,700,000 to be paid respectively 18 and 36 months after the signature, providing objectives are met. This earn-out was evaluated by the Group at fair value, considered to be equal to their nominal value, and this analysis is still valid at December 31, 2018.
The liquidation of Lectra Hellas in June 2017 (see note 2.29) had had no impact on the Group's goodwill.
No other acquisition or liquidation was made in fiscal years 2018 or 2017.
All past acquisitions, except that of Kubix Lab, have been paid for in full, and no other earn-out is due on these transactions.

	2018	2017
Book value at January 1	**32,105**	**33,334**
Change in scope of consolidation (1)	6,964	-
Exchange rate differences	404	(1,229)
Book value at December 31	**39,473**	**32,105**

(1) Integration of Kubix Lab in 2018, see note 2.29.

Goodwill shown in the statement of financial position was subjected to impairment testing in December 2018. The projections used are based on the 2019–2021 plan for each CGU based on actual 2018 cash flows and on forecast trends in each market concerned and, beyond 2021, 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 break 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 1% and 1.5% depending on the estimated risk attached to fulfillment of the 2019–2021 plan;
- the normative cost of debt is determined on the basis of average market conditions for the fourth quarter of 2018 plus the margin applied by the banks.

The resulting estimates of the value in use of goodwill components for the year end closing have not led to any impairment, as in 2017.
An identical valuation of the CGUs would result from applying a pre-tax discount rate to pre-tax cash flows.

At December 31, 2018, goodwill and discount rates used in impairment testing were allocated as follows among the different CGUs:

	2018		2017	
	Discount rate	Goodwill	Discount rate	Goodwill
Italy [(1)]	7.4%	16,182	7.4%	12,004
France [(1)]	7.5%	4,065	7.4%	2,324
Germany	7.5%	4,631	7.5%	4,631
Northern Europe	7.5%	1,590	7.5%	1,590
United Kingdom	7.5%	1,202	7.5%	1,212
Portugal	7.5%	220	7.5%	220
Total Europe		27,890		21,981
North America [(1)]	8.6%	8,146	9.8%	6,780
South America	14.7%	472	15.9%	450
Total Americas		8,617		7,230
Japan	6.1%	449	6.1%	418
Greater China	9.2%	672	9.4%	641
Other Asian Countries	9.6%	1,478	10.1%	1,467
Total Asia		2,598		2,527
Other Countries	14.4%	368	14.4%	368
Total		**39,473**		**32,105**

(1) Integration of Kubix Lab in 2018, see note 2.29.

The goodwill relating to Kubix Lab has been allocated to the following CGUs: Italy for 60%, France for 25% and North America for 15%.

No reasonably possible variation could lead to an impairment. Indeed, the following sensitivity calculations have been performed:

- a 1 percentage point rise in the discount rate;
- a 1 percentage point decline relative to the revenue growth assumptions for each CGU used in the drawing up of the 2019–2021 plan;
- a 1 percentage point decline in the gross profit margin assumptions used in the drawing up of the 2019–2021 plan;
- a 1 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

2017	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2017	**22,607**	**1,732**	**909**	**25,249**
External purchases	468	140	-	608
Internal developments	209	-	-	209
Write-offs and disposals	(45)	(201)	(31)	(277)
Transfers	13	(13)	-	-
Exchange rate differences	(112)	-	(14)	(127)
Gross value at December 31, 2017	**23,140**	**1,658**	**864**	**25,662**
Amortization at December 31, 2017	(19,999)	(1,415)	(846)	(22,260)
Net value at December 31, 2017	**3,141**	**243**	**17**	**3,402**

2018	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2018	**23,140**	**1,658**	**864**	**25,662**
External purchases	995	65	10	1,070
Internal developments	666	-	-	666
Write-offs and disposals	(66)	-	-	(66)
Exchange rate differences	28	-	(4)	24
Gross value at December 31, 2018	**24,763**	**1,724**	**870**	**27,356**
Amortization at December 31, 2018	(21,308)	(1,498)	(862)	(23,668)
Net value at December 31, 2018	**3,455**	**225**	**8**	**3,688**

Changes in amortization:

2017	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2017	**(18,648)**	**(1,540)**	**(882)**	**(21,070)**
Amortization charges	(1,470)	(86)	(7)	(1,563)
Amortization write-backs	45	201	31	277
Transferts	(10)	10	-	-
Exchange rate differences	85	-	12	97
Amortization at December 31, 2017	**(19,999)**	**(1,415)**	**(846)**	**(22,260)**

2018	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2018	**(19,999)**	**(1,415)**	**(846)**	**(22,260)**
Amortization charges	(1,366)	(83)	(19)	(1,468)
Amortization write-backs	66	-	-	66
Exchange rate differences	(8)	-	3	(6)
Amortization at December 31, 2018	**(21,308)**	**(1,498)**	**(862)**	**(23,668)**

INFORMATION MANAGEMENT SOFTWARE

As part of an ongoing process to upgrade and reinforce its information systems, in 2018 and 2017 the Group has purchased licenses of new information management 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.

A growing part of the new management software used by the Group is contracted through subscription, and not the acquisition of licenses, which entails a decrease in the amount of new purchases of this caption, in respect of past years.

Write-offs and disposals of intangible assets mainly concern the scrapping of obsolete software.

OTHER INTANGIBLE ASSETS

At December 31, 2018, nearly all of the other intangible assets were fully amortized several years ago. The net residual value of these intangible assets was €8,000.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

2017	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2017	**13,886**	**18,894**	**26,418**	**59,198**
Additions	348	3,134	3,264	6,746
Write-offs and disposals	-	(2,133)	(1,955)	(4,088)
Transfers (1)	-	-	271	271
Exchange rate differences	(6)	(228)	(190)	(424)
Gross value at December 31, 2017	**14,227**	**19,667**	**27,808**	**61,703**
Accumulated depreciation at December 31, 2017	(7,151)	(10,513)	(19,596)	(37,259)
Net value at December 31, 2017	**7,077**	**9,155**	**8,212**	**24,444**

(1) In 2017, the Group had transferred to fixed assets equipment prototypes under development, which were previously accounted for as inventory.

2018	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2018	**14,227**	**19,667**	**27,808**	**61,703**
Additions	586	1,218	4,005	5,809
Change in scope of consolidation (1)	-	-	16	16
Write-offs and disposals	(702)	(1,079)	(1,593)	(3,374)
Exchange rate differences	0	35	(7)	28
Gross value at December 31, 2018	**14,111**	**19,842**	**30,229**	**64,183**
Accumulated depreciation at December 31, 2018	(6,630)	(10,227)	(20,978)	(37,835)
Net value at December 31, 2018	**7,481**	**9,615**	**9,251**	**26,347**

(1) Integration of Kubix Lab, see note 2.29.

Changes in depreciation:

2017	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2017	**(6,984)**	**(11,962)**	**(18,936)**	**(37,881)**
Additional depreciation	(167)	(830)	(2,674)	(3,672)
Write-offs and disposals	-	2,115	1,927	4,042
Transfers	-	-	-	-
Exchange rate differences	0	165	87	252
Accumulated depreciation at December 31, 2017	**(7,151)**	**(10,513)**	**(19,596)**	**(37,259)**

2018	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2018	**(7,151)**	**(10,513)**	**(19,596)**	**(37,259)**
Additional depreciation	(181)	(1,020)	(2,700)	(3,901)
Write-offs and disposals	702	1,076	1,586	3,364
Exchange rate differences	-	230	(269)	(39)
Accumulated depreciation at December 31, 2018	**(6,630)**	**(10,227)**	**(20,978)**	**(37,835)**

LAND AND BUILDINGS

'Land and buildings' pertain mostly to the Group's industrial facilities in Bordeaux-Cestas (France), amounting to a gross value of €13,359,000, net of investment grants received and to a net value of €6,783,000 at December 31, 2018. They also include the offices of Lectra Korea, located in Seoul, purchased on May 1, 2014, for a gross amount of €752,000 at December 31, 2018 closing rate.

The facilities in Bordeaux-Cestas cover an area of 11.6 hectares (28.7 acres) and the buildings represent 33,135 sq. m. (356,600 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.

Investments are made on a regular basis on the Bordeaux-Cestas facilities. In 2018, as in 2017, they mainly related to the extension and rehabilitation of buildings.

At December 31, 2018, the land (non-depreciable) is valued at €994,000. The buildings total a gross value of €13,117,000, already €6,630,000 depreciated.

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 €19,842,000 and for a net amount of €9,615,000 at December 31, 2018. Investments have been made in fixtures and fittings in 2018 (€1,218,000) and in 2017 (€3,134,000) throughout the Group. In 2018, as in 2017, they related to the rehabilitation of buildings on the Bordeaux-Cestas facilities.

EQUIPMENT AND OTHER

Other fixed assets purchased in 2018 and 2017 mainly concerned computer equipment and manufacturing molds and tools for the Bordeaux-Cestas industrial facility.

NOTE 9. OTHER NON-CURRENT ASSETS

The Group now presents separately the current and non-current part of the income tax receivable related to the French research tax credit. Thus, the portion corresponding to the research tax credit accounted for and not deducted from the corporate income tax in the past three years, and that will be repaid to the Group within the course of the second year (for the research tax credit recorded two years ago), third year (for the research tax credit recorded one year ago) and fourth year (for the research tax credit recorded in the past year), is now presented within other non-current assets.
Consequently, the 2017 amounts have been restated accordingly.

2017	Investments in subsidiaries	Research tax credit receivable	Other non-current financial assets	Total
Gross value at January 1, 2017	**2,251**	**15,145**	**1,423**	**18,819**
Additions	-	4,519	5,153	9,672
Disposals	(12)	-	(4,858)	(4,870)
Reclassification	-	(6,857)	-	(6,857)
Exchange rate differences	-	-	(75)	(75)
Gross value at December 31, 2017	**2,239**	**12,807**	**1,643**	**16,688**
Impairment provision at December 31, 2017	(1,315)	-	-	(1,315)
Net value at December 31, 2017	**924**	**12,807**	**1,643**	**15,373**

2018	Investments in subsidiaries	Research tax credit receivable	Other non-current financial assets	Total
Gross value at January 1, 2018	**2,239**	**12,807**	**1,643**	**16,688**
Additions	-	5,047	5,180	10,227
Disposals	-	-	(5,551)	(5,551)
Reclassification	-	(5,672)	-	(5,672)
Exchange rate differences	-	-	(3)	(3)
Gross value at December 31, 2018	**2,239**	**12,182**	**1,269**	**15,690**
Impairment provision at December 31, 2018	(1,265)	-	-	(1,265)
Net value at December 31, 2018	**974**	**12,182**	**1,269**	**14,425**

INVESTMENTS IN SUBSIDIARIES

'Investments in subsidiaries' exclusively concern companies not included in the scope of consolidation.
The decrease shown in 2017 stemmed from the liquidation of the Israeli subsidiary (see note 2.29). All the assets of the subsidiary had been entirely impaired previously, and this liquidation had no impact on the income statement or cash position of the Group.
At December 31, 2018, three sales and service subsidiaries were 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).

RESEARCH TAX CREDIT

The Group now presents separately the current and non-current portion of the income tax receivable related to the French research tax credit. Consequently, the 2017 amounts have been restated accordingly.
Note 14 describes the principles for accounting of the research tax credit receivable.

OTHER NON-CURRENT FINANCIAL ASSETS

'Other non-current financial assets' at December 31, 2018 primarily consisted of deposits and guarantees for €912,000 (€949,000 at December 31, 2017) together with the amount of €357,000 placed by the Company at the disposal of Exane BNP Paribas, along with company shares under the liquidity agreement (see note 15.2).
The cumulative amount of all transactions on treasury shares by Exane BNP Paribas under the liquidity agreement is shown in additions (in case of sales of shares) and disposals (in case of purchases of shares) of other non-current financial assets (see note 15.2).
The movements for the period also concern cash exchanged between the Company and Exane BNP Paribas, under the liquidity agreement managed by the latter.

NOTE 10. RELATED-PARTY TRANSACTIONS

The amounts below refer to fiscal year 2018 or December 31, 2018, as applicable.

Type of transaction	Items concerned in consolidated financial statements	Non-consolidated subsidiaries concerned	Amounts
Receivables[1]	Trade accounts receivable	Lectra Philippines Inc. (Philippines)	32
		Lectra Chile SA (Chile)	12
Payables[1]	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	(1,144)
		Lectra Philippines Inc. (Philippines)	(296)
Sales[2]	Revenues	Lectra Chile SA (Chile)	200
		Lectra Philippines Inc. (Philippines)	145
Purchases[2]	Cost of goods sold		-
Commissions[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(158)
		Lectra Philippines Inc. (Philippines)	(54)
Personnel invoiced[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(1,339)
Fees[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(38)

(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 the Board of Directors are limited to compensation, details of which are provided in notes 28.5 and 28.6.

NOTE 11. TAXES

NOTE 11.1 TAX EXPENSE

	2018	2017
Current tax income (expense)	(10,116)	(9,824)
Deferred tax income (expense)	(61)	658
Net tax income (expense)	**(10,177)**	**(9,166)**

The research tax credit (*crédit d'impôt recherche*) applicable in France is deducted from R&D expenses (see note 26). It amounts to €8,369 in 2018 (€7,562,000 in 2017).
The French competitiveness and employment tax credit (*crédit d'impôt compétitivité et emploi)* enacted in 2013 is shown as a deduction from the corresponding personnel expense (see note 28) and amounted to €971,000 in 2018 (€1,016,000 in 2017).
These two tax credits are therefore not included in the net tax charge for the two fiscal years presented here.

NOTE 11.2 EFFECTIVE TAX RATE

	2018	2017
Income before tax	**38,917**	**38,431**
Standard rate of corporate income tax in France	34.1%	34.2%
Expense at standard rate of corporate income tax in France	**(13,260)**	**(13,158)**
Effect of other countries' different tax rates	1,222	1,244
Effect of reduction in unrecognized deferred tax assets	346	1,111
Effect of tax credits(1)	3,304	3,054
Effect of CVAE(2)	(1,019)	(962)
Effect of other non taxable income and non deductible expenses(3)	(514)	(458)
Others	(256)	3
Net tax income / (expense)	**(10,177)**	**(9,166)**
Consolidated effective tax rate	26.2%	23.8%

(1) This mainly includes the non taxation of the research tax credit and the competitiveness and employment tax credit, included in the income before tax.

(2) The "cotisation sur la valeur ajoutée des entreprises" (CVAE – tax on corporate added value) in France satisfies the definition of an income tax as set forth in IAS 12.2.

(3) This mainly corresponds to income or expenses for the year that will never be subject to taxation or tax deduction, including in particular the neutralization for tax purposes of some consolidation entries.

The net income tax expense in 2017 included an income of €1,220,000 following cancellation by the French Constitutional Council of the 3% tax on dividends in France, a €421,000 income due to recognition of an increase in the deferred tax position of Lectra Inc. (USA), and a €993,000 expense arising from revaluation of the deferred tax position of Lectra SA (in France) and Lectra Inc. following the tax reforms enacted in both countries, which gradually reduce corporate income tax rates.

NOTE 11.3 DEFERRED TAXES

Owing to perspectives of future profits for the subsidiaries, related to their risks and functions profiles, the Group considers five years to be a reasonable period for the utilization of tax losses. Beyond that period, because forecasts of activity levels is deemed insufficiently reliable, the corresponding portion of their bases 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 three-year plan, extrapolated to five years, subject to annual review, 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, 2018, unrecognized deferred tax assets totaled €1,214,000, compared with €1,567,000 at December 31, 2017.

The share of deferred taxes directly recognized in equity for the year worked out to a negative €54,000 corresponding to the tax effect of actuarial gains and losses on retirement benefit obligations booking (a positive €52,000 in 2017).

Deferred taxes are listed below according to the type of timing difference:

At December 31	2016	P&L impact	Equity impact	Translation adjustments	2017
Tax losses carry-forward	3,419	(849)	-	(353)	2,216
Depreciation/amortization of tangible and intangible assets	(1,173)	2,004	-	177	1,008
Impairment of accounts receivable	560	(94)	-	(35)	431
Write-down of inventories	2,088	261	-	(384)	1,966
Other timing differences	4,429	(664)	52	(172)	3,645
Total	**9,323**	**658**	**52**	**(768)**	**9,266**

At December 31	2017	P&L impact	Equity impact	Translation adjustments	2018
Tax losses carry-forward	2,216	(664)	-	57	1,608
Depreciation/amortization of tangible and intangible assets	1,008	(655)	-	(59)	294
Impairment of accounts receivable	431	(102)	-	3	331
Write-down of inventories	1,966	268	-	37	2,270
Other timing differences	3,645	1,093	(54)	6	4,690
Total	**9,266**	**(61)**	**(54)**	**43**	**9,194**

'Other timing differences' comprise mainly timing differences related to retirement benefits and profit-sharing in France for Lectra SA, as well as timing differences due to invoicing in some subsidiaries (corporate income tax based on invoicing and not revenue).

NOTE 11.4 SCHEDULE OF RECOGNIZED TAX LOSSES CARRY-FORWARDS

	Expiration date			
	Until 2019	Between 2020 and 2024	Beyond 2024	Total
Deferred tax assets on tax losses(1)	20	118	1,470	**1,608**

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

NOTE 12. INVENTORIES

	2018	2017
Raw materials	29,976	27,264
Finished goods and work-in-progress(1)	13,354	11,882
Inventories, gross value	**43,330**	**39,146**
Raw materials	(4,564)	(4,153)
Finished goods and work-in-progress(1)	(4,441)	(3,859)
Write-downs	**(9,005)**	**(8,012)**
Raw materials	25,412	23,110
Finished goods and work-in-progress(1)	8,913	8,023
Inventories, net value	**34,326**	**31,133**

(1) Including demonstration and second-hand equipment.

€736,000 of inventory fully written-down was scrapped in the course of 2018 (€902,000 in 2017), thereby diminishing the gross value and write-downs by the same amount. Inventory write-downs charged for the year amounted to €2,408,000 (€1,840,000 in 2017). Reversals of previous write-downs relating to sales transactions amounted to €684,000 (€804,000 in 2017), booked against the charges for the period.

NOTE 13. TRADE ACCOUNTS RECEIVABLE

	2018	2017
Trade accounts receivable, gross value	61,064	57,914
Provision for impairment	(2,500)	(2,849)
Trade accounts receivable, net value	**58,564**	**55,065**

Trade receivables at December 31, 2018 include a great portion of the €56,225,000, excluding taxes, on recurring contracts, other services and equipment billed in advance for 2019, but not yet collected (compared with €53,013,000, excluding taxes, at December 31, 2017 in respect of 2018), and for which the counterpart is recorded in 'Deferred revenues' (see note 20). Payments on recurring contracts generally become due on the first day of the period they cover.

Thus, at December 31, 2018, trade accounts receivable, net from deferred revenues and provision for impairment, amount to €2,339,000 (€2,052,000 at December 31, 2017).

It should be noted that contract assets, which would be invoices to be issued for the Group, are integrated in the 'Trade accounts receivable' line and do not represent a significant amount.

The Group recognizes an impairment expense on trade accounts in light of an individual analysis of overdue accounts receivable and lifetime expected credit losses. Changes in impairment charges are analyzed below:

	2018	2017
Impairment at January 1	**(2,849)**	**(4,667)**
Additional impairment	(1,183)	(1,231)
Write-back of impairment	1,515	2,899
Exchange rate differences	17	149
Impairment at December 31	**(2,500)**	**(2,849)**

Changes in 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' (see note 27).

Schedule of gross receivables by maturity:

	2018	2017
Receivables not yet due	44,803	45,781
Receivables overdue, by:	16,261	12,133
- less than 1 month	7,526	3,742
- 1-3 months	2,477	2,256
- more than 3 months	6,258	6,135
Total	**61,064**	**57,914**

The majority of the provisions of accounts receivable and related accounts amounting to €2,500,000 at December 31, 2018 concerned accounts more than three months overdue.

NOTE 14. OTHER CURRENT ASSETS

	2018	2017
Research tax credit and employment and competitiveness tax credit (1)	5,704	6,857
Other tax receivables	1,820	1,905
Income tax down-payments	3,362	3,269
Staff and social security receivables	329	302
Other current assets	4,232	3,578
Total other current assets	**15,447**	**15,912**

(1) The Group now presents separately the current and non-current part of the income tax receivable related to the French research tax credit. Consequently, the 2017 amounts have been restated accordingly: 'Research tax credit and employment and competitiveness tax credit' then amounted to €19,664,000. €12,807,000 have been reclassified to 'Other non-current assets' at December 31, 2017.

RESEARCH TAX CREDIT – COMPETITIVENESS AND EMPLOYMENT TAX CREDIT

When the research tax credit and the competitiveness and employment tax credit applicable in France recognized in the year cannot be deducted from the corporate income tax, they are treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the Company in the course of the fourth year. Owing to that, the Group now presents separately the current and non-current (to be repaid in over a year) part of the income tax receivable related to the French research tax credit (see note 9).
The research tax credit (€8,364,000) and the competitiveness and employment tax credit (€971,000) for fiscal 2018 were accounted for but not received.
The competitiveness and employment tax credits relating to fiscal 2018 and prior years have been entirely deducted from the corporate income tax due by Lectra SA.
Thus, at December 31, 2018, Lectra SA held a €17,886,000 receivable on the French tax administration (of which €12,182,000 classified as other non-current assets – see note 9). This comprised the remaining amount of the research tax credit, after deduction from the corporate income tax due by Lectra SA in the same year: for 2018 (€5,047,000), 2017 (€4,551,000), 2016 (€2,584,000) and 2015 (€5,704,000).
In light of its estimates of tax credits and corporate income tax for the next three fiscal years, the Company does not expect to make any payment in respect of corporate income tax, from which will be deducted in full the competitiveness and employment tax credit, and, when applicable, the research tax credit of each fiscal year. Thus, in Q4 2018, it received the balance outstanding relating to the 2014 tax credit of €6,857,000 and expects to receive the reimbursement of the balance outstanding of these non-deducted tax credits as follows: in 2019 (in respect of the 2015 tax credit), 2020 (in respect of the 2016 tax credit), 2021 (in respect of the 2017 tax credit) and 2022 (in respect of the 2018 tax credit). This situation will last for as long as the amount of the annual tax credits exceeds the amount of income tax payable.
If the income tax expense were to rise above the amounts of tax credits for the year, the Company would continue to not pay corporate income tax until the corresponding receivable is deducted in full. Thereafter it would deduct these tax credits each year from the income tax expense for the same year in full and would be required to pay the residual amount.

OTHER TAX RECEIVABLES

Other tax receivables at December 31, 2018 comprised the recoverable value-added tax for parent company and its subsidiaries.

OTHER CURRENT ASSETS

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

NOTE 15. SHAREHOLDERS' EQUITY

NOTE 15.1 SHARE CAPITAL AND SHARE PREMIUM

The share capital at December 31, 2018 totaled €31,846,757, divided into 31,846,757 shares with a par value of €1.00. It was €31,571,096, divided into 31,571,096 shares with a par value of €1.00, at December 31, 2017.
Share capital has increased by 275,661 shares since January 1, 2017, resulting from the exercise of stock options, that is, an increase of €275,661 of share capital together with a total share premium of €1,573,000 (issuance of 323,542 shares in 2017).
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 authorization 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 2018 and 2017.

Note 15.1.1 Share capital

	2018		2017	
	Number of shares	Share capital (in euros)	Number of shares	Share capital (in euros)
Share capital at January 1	**31,571,096**	**31,571,096**	**31,247,554**	**31,247,554**
Stock options exercised	275,661	275,661	323,542	323,542
Share capital at December 31	**31,846,757**	**31,846,757**	**31,571,096**	**31,571,096**

The shares comprising the capital are fully paid up.

Note 15.1.2 Share premium

	2018	2017
Share premium at January 1	**12,270**	**10,912**
Stock options exercised	1,573	1,358
Share premium at December 31	**13,843**	**12,270**

NOTE 15.2 TREASURY SHARES

The ordinary shareholders' meeting on April 27, 2018 renewed the existing share buyback program authorizing the Board of Directors to buy and sell company shares. The purpose of this program is solely to maintain liquidity in the market of 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).
Since May 21, 2012, Lectra had 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 AMF.
On December 27, 2018, Lectra signed a new contract with Exane BNP Paribas, in accordance with AMF decision n° 2018-01 of July 2, 2018, defining the accepted market practice relating to liquidity agreements on capital shares, applicable as of January 1, 2019. This new contract took effect as of January 2, 2019 and replaced the previous agreement signed on May 11, 2012 with Exane BNP Paribas.

At December 31, 2018, the Company held 30,779 shares, i.e. 0.1% of its capital within the framework of the liquidity agreement (compared with 0.04% at December 31, 2014) for a total of €560,000 (compared with €298,000 at December 31, 2017) representing an average purchase price of €18.20 per share, which has been deducted from shareholders' equity.
The resources allocated to the liquidity agreement also included, at December 31, 2018, the amount of €357,000.
The Company holds no treasury shares outside the framework of the liquidity agreement.

	2018			2017		
	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)	12,290	(298)	24.23	5,085	(91)	11.06
Liquidity agreement						
Purchases (at purchase price)	257,271	(5,445)	21.16	203,882	(4,814)	23.61
Sales (at sale price)	(238,782)	5,110	21.40	(196,677)	4,646	23.62
Net cash flow(1)	18,489	(335)		7,205	(168)	
Gains (losses) on disposals		(73)			38	
Treasury shares at December 31 (historical cost)	**30,779**	**(560)**	**18.20**	**12,290**	**(298)**	**24.23**

(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, then Chairman of the Board of Directors, and Daniel Harari, then Chief Executive Officer, had canceled at that time the double voting rights attached to the shares they held.
Following the recommendation of the Board of Directors, the extraordinary shareholders' meeting on September 26, 2014 maintained the principle of one share, one vote following the entry into force of the French March 29, 2014 Act (Law nº 2014-384, the "Florange Act"), reversing the principle that held until now, by providing that shares of listed companies registered for at least two years in the name of the same shareholder will henceforward enjoy double voting rights, and amended the Company bylaws in consequence.
As a result, at December 31, 2018, 31,610,061 shares qualified for normal voting rights, and only 236,696 (i.e. 0.7% of the share capital) for double voting rights. Moreover, no other shares could potentially qualify for double voting rights at some future date.
At December 31, 2018, the theoretical total number of voting rights attached to the Company's shares was 32,083,453. This number has been reduced to 32,052,674 due to the fact that no voting rights are attached to treasury shares (under the liquidity agreement).

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, 2018, 301 employees were the beneficiaries of 1,660,036 options and 42 former employees still held 17,851 options; altogether, 343 persons were beneficiaries of options (respectively 295, 50 and 345 at December 31, 2017).

At that 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 33,524,644, made up as follows:

- share capital: 31,846,757 shares;
- stock options: 1,677,887 shares.

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. 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, 2018, the share capital would increase by €1,677,887, together with a total issue premium of €24,678,992.

None of the parent company's subsidiaries have 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 Shareholders' Meeting is made payable, or thirty to forty-five calendar dates after the Meeting if no dividend is declared, i.e. around June 10.

The share exercise price is set on the date of granting of the options, at a price in no circumstances less than the average opening price of the share listed for the twenty trading sessions prior to the date of granting of options by the Board of Directors.

IFRS 2 requires companies to expense the value of the benefit granted to the beneficiaries of stock options.

Fair value of stock options granted in 2018 and 2017 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

	2018	2017
Exercise price (in euros)	22.25	28.25
Share price on the date of allocation (in euros)	21.35	28.02
Risk-free interest rate	-0.13%	-0.39%
Dividend payout rate	1.70%	1.37%
Volatility	23.90%	22.20%
Duration of options	4 years	4 years
Fair value of one option (in euros)	2.90	3.84

Volatility is calculated on the basis of the observed historical volatility of the Company's share price over a time frame corresponding to the vesting period. This calculation ignores peaks resulting from exceptional events.

Fair value of the options granted on June 12, 2018 amounts to €1,075,000. It was reduced to €945,000 following the cancellation of options after the calculation of the actual performance of 2018 for each beneficiary, and the departure of seven beneficiaries in 2018.

An expense of €493,000 was recognized in the 2018 financial statements, including €116,000 in respect of the grants made in 2018, and €377,000 in respect of options granted previously. Charges for the year are recognized under personnel expenses.

Plans in force at December 31, 2018 will impact the years 2019, 2020 and 2021 alone in the estimated amounts of €576,000, €479,000 and €210,000 respectively.

The Group paid a €170,000 employer's contribution based on the fair value of the options granted in 2018, fully expensed in personnel costs for 2018.

Note 15.5.1 Stock options outstanding: options granted, exercised and canceled during the period

	2018		2017	
	Number of stock options	Average exercise price (in euros)	Number of stock options	Average exercise price (in euros)
Stock options outstanding at January 1	**1,692,996**	**13.11**	**1,763,513**	**9.13**
Stock options granted during the year	370,591	22.25	399,794	28.25
Stock options exercised during the year	(275,661)	6.71	(323,542)	5.20
Stock options expired/canceled during the year	(110,039)	20.25	(146,769)	23.99
Stock options outstanding at December 31	**1,677,887**	**15.71**	**1,692,996**	**13.11**
- of which fully vested	745,975	8.82	979,529	7.99
- for which exercise rights remain to be acquired	931,912	21.22	713,467	20.12

For the plan granted since 2016, the right to exercise these options vests on a single occasion at the end of the four-year period starting on January 1 of the year of granting and ending on December 31 of the fourth year.

For the plans granted before January 1, 2016 and still in force at December 31, 2018, the terms relating to the vesting of options are determined on an annual basis over a period of four years since January 1 of the year they are granted, and depend on whether the beneficiary was a Group employee at December 31 of the elapsed fiscal year.

Note 15.5.2 Breakdown of stock options outstanding at December 31, 2018, by category of beneficiaries

	2018				
	Number of beneficiaries	Number of stock options	%	Of which fully vested	Of which exercise rights remain to be acquired
Executive Committee(1)	4	508,313	30%	310,874	197,439
Group management	42	519,526	31%	179,454	340,072
Other employees	255	632,197	38%	237,796	394,401
Persons having left the company and still holding unexercised options	42	17,851	1%	17,851	-
Total	**343**	**1,677,887**	**100%**	**745,975**	**931,912**

(1) The sole beneficiaries are Jérôme Viala, Executive Vice President, Véronique Zoccoletto, Chief Transformation Officer, Édouard Macquin, Chief Sales Officer and Céline Choussy, Chief Marketing and Communications Officer, members of the Executive Committee. Daniel Harari, Chairman and Chief Executive Officer does not hold any options.

Note 15.5.3 Breakdown of stock options at December 31, 2018, by expiration date and exercise price

Grant date	Expiration date	Number of stock options	Exercise price (in euros)
June 9, 2011	June 9, 2019	68,910	6.25
September 4, 2012	September 4, 2020	182,508	6.25
June 13, 2013	June 13, 2021	113,388	6.25
June 16, 2014	June 16, 2022	179,002	8.50
June 12, 2015	June 12, 2023	202,167	13.75
June 9, 2016	June 9, 2024	334,272	14.50
June 8, 2017	June 8, 2025	271,849	28.25
June 12, 2018	June 12, 2026	325,791	22.25
Total		**1,677,887**	**15.71**

All of the 17,851 options held by people having left the Group expire in 2019.

Note 15.5.4 Breakdown of stock options for which exercise rights remain to be acquired after December 31, 2018 by the beneficiaries

Year of vesting	Number of stock options
2019	334,272
2020	271,849
2021	325,791
Total	**931,912**

Note 15.5.5 Absence of stock option plans for the Company Officer

No stock options were granted to Daniel Harari, Chairman and Chief Executive Officer, who owns more than 10% of the capital since 2000 and has therefore been prohibited since this date by French law from being granted further stock options, and has not received any options.

Note 15.5.6 Stock options granted in 2018

The Board of Directors, meeting on June 12, 2018, granted, in respect of the 2018 stock option plan, a maximum of 370,591 options to 238 beneficiaries, at an exercise price of €22.25 per share, as follows:

- a maximum number of 246,058 options to 71 beneficiaries, in respect of the fulfilment of their annual performance targets set for 2018;
- 124,533 options to 170 beneficiaries, of which 83,934 options to 144 beneficiaries of a stock option plan unrelated to their performance in 2018 and 40,599 options to the 48 winners of the 2017 Lectra Worldwide Championship and 2018 Lectra Awards (25 winners of the 2017 Lectra Worldwide Championship and the 2018 Lectra Awards being beneficiaries of other options also granted in 2018).

The definitive number of options at December 31, 2018 is then calculated with reference to the percentage fulfilment of targets set for each beneficiary for 2018. It also takes account of departures between the date of grant and the end of the year.

At the date of this report, the calculations of actual performance in 2018, based on the Group's consolidated financial statements, have been finalized for all the beneficiaries. In light of this performance, 31,763 options have thus been cancelled, out of the 246,058 options initially granted.
Moreover, 13,037 options have ceased to be valid due to the departure of seven beneficiaries in 2018.
As a result, the total number of options at December 31, 2018 initially granted (370,591 options to 238 beneficiaries) has been reduced to 325,791 and the number of beneficiaries to 231. The 10 Group employees to whom the largest number of options was granted in the course of fiscal 2018 were granted a total of 107,319 options.
The options representing the difference between those initially granted and those actually granted as a result of actual performance by the beneficiaries, and options corresponding to departures, are cancelled.
All of the options granted concerned Group employees. The only Company Officers *(dirigeants mandataires sociaux)*, André Harari (until his departure on July 27, 2017) and Daniel Harari, have held no stock options since 2000.
The right to exercise these options vests at the end of the period ended December 31, 2021 (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 a Company Officer at this date). In the event of the departure of a beneficiary before this date, all options that were granted to the beneficiary cease to be valid.
By way of exception, the right to exercise options shall be maintained in the event of the death of the beneficiary, or retirement at the statutory pensionable age in the beneficiary's country, provided the death or retirement occurs between January 1 of the year following the grant and the end of the four-year vesting period (that is, for Plans 15a, 15b and 15c, between January 1, 2019 and December 31, 2021). This shall apply in full for options whose exercise is contingent only on continued presence; for options whose exercise is also contingent on actual performance, it shall apply to the definitive number of options calculated with reference to the beneficiary's actual performance at December 31 of the year of the grant (that is, December 31, 2018, for the 2018 Plan).
The options are valid for a period of eight years from the date of granting.
Moreover, 65,239 options granted prior to 2018 have ceased to be valid due to the departure of the beneficiaries.

Note 15.5.7 Stock options exercised in 2018

275,661 options pertaining to the different options plans in force at December 31, 2017 were exercised in 2018.

	2018	
Grant date	Number of stock options exercised	Exercise price (in euros)
June 10, 2010	28,505	2.50
June 9, 2011	36,015	6.25
September 4, 2012	22,582	6.25
June 13, 2013	85,218	6.25
June 16, 2014	103,341	8.50
Total	**275,661**	**6.71**

NOTE 16. CURRENCY TRANSLATION ADJUSTMENTS

Analysis of changes recorded in 2018 and 2017:

	2018	2017
Cumulative translation adjustments at January 1	**(9,872)**	**(8,537)**
Differences on translation of subsidiaries' income statements	39	(303)
Adjustments required to maintain subsidiaries' retained earning at historical exchange rate	659	(1,074)
Other movements	(380)	41
Cumulative translation adjustments at December 31	**(9,554)**	**(9,872)**

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 Company Officer *(dirigeant mandataire social)* is not the beneficiary of any defined benefit retirement plan.

These obligations apply mainly in France, in Italy and Japan, as detailed below:

2017	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2017	**7,061**	**981**	**667**	**234**	**8,943**
Expense/(income) of the year	546	13	67	68	694
Benefits paid	(96)	(7)	(25)	(22)	(150)
Contributions paid	-	-	-	(56)	(56)
Actuarial losses (gains)	148	4	26	(6)	172
Exchange rate differences	-	-	(62)	(23)	(85)
Retirement benefits at December 31, 2017	**7,659**	**991**	**674**	**195**	**9,518**

2018	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2018	**7,659**	**991**	**674**	**195**	**9,518**
Expense/(income) of the year	575	6	65	84	730
Benefits paid	(237)	(14)	-	(23)	(274)
Contributions paid	-	-	-	(36)	(36)
Actuarial losses (gains)	(157)	23	28	(50)	(156)
Exchange rate differences	-	-	52	(11)	41
Retirement benefits at December 31, 2018	**7,840**	**1,006**	**819**	**159**	**9,823**

Breakdown of net annual charge:

2017	France	Italy	Japan	Others	Total
Service cost provided in the year	419	-	65	46	530
Past service cost	-	-	-	-	-
Net interest cost	127	13	2	22	164
Expense/(income) of the year	**546**	**13**	**67**	**68**	**694**

2018	France	Italy	Japan	Others	Total
Service cost provided in the year	460	-	63	58	581
Past service cost	-	-	-	5	5
Net interest cost	115	6	1	22	144
Expense/(income) of the year	**575**	**6**	**65**	**84**	**730**

Main actuarial assumptions used:

	France	Italy	Japan
Discount rate	1.52%	1.14%	0.20%
Average rate of salary increase, including inflation	2.61%	2.63%	1.14%
Personnel turnover rate	3.22% / 7.27%	3.00%	13.29%

The discount rate used is determined by reference to the yield the date of measurement on investment-grade corporate bonds with a maturity corresponding to the duration of the obligation. For the Eurozone, the discount rate used is determined by reference to the iBoxx rates, made up from corporate bonds rated AA or higher; the same applies to Japan.
According to estimates made by the Group, a change of plus or minus 0.25% of the discount rate would result in a change in actuarial liabilities of the opposite sign by approximately 2.7%. Moreover, a change of plus or minus 0.25% of the rate of salary increase would result in a change in actuarial liabilities of the same sign by approximately 2.6%.
The personnel turnover rate was calculated via a table based on age group. For France, the personnel turnover rate for employees under 50 years of age was 3.22% for non-managerial grade personnel, and 7.27% for managerial grade personnel. It was 0% over 50 years of age.

NOTE 18. BORROWINGS AND FINANCIAL DEBTS

NOTE 18.1 NET CASH

	2018	2017
Available cash	72,223	68,134
Cash equivalents	30,000	30,000
Borrowings and financial debts	-	-
Net cash	**102,223**	**98,134**

After the repayment in 2015 of the remainder of public grants to finance R&D programs, which were its sole debt, the Group had no remaining borrowing or financial debt.

Cash equivalents solely consist in a term deposit with a one-month maturity and a blocked account with a 32-day maturity.

Net cash was equal to cash and cash equivalents, and amounted to €102,223,000 at December 31, 2018.

The major part of cash is invested in interest-bearing sight accounts and time deposits.

NOTE 18.2 BORROWINGS BY CATEGORY AND BY MATURITY

The Group has been debt-free since 2015.

NOTE 18.3 FINANCIAL INSTRUMENTS: INTEREST RATE HEDGES

Since the Group no longer has financial debts, it is not exposed to interest-rate risk, and thus holds no interest rate hedges.

NOTE 18.4 FINANCIAL INSTRUMENTS: CURRENCY HEDGES

In 2018 and 2017, the Group mainly used forward sales and purchases of currencies to hedge its foreign currency balance sheet positions at the end of each month.

Forward transactions entered into by the Company to hedge significant balance sheet currency positions at December 31, 2018 and 2017 are analyzed below:

	2018				2017			
	In foreign currency(1) (in thousands)	Value (in thousands of euros)(2)	Difference in value(3)	Expiration date	In foreign currency(1) (in thousands)	Value (in thousands of euros)(2)	Difference in value(3)	Expiration date
USD	1,754	1,532	5	January 7, 2019	9,029	7,529	12	January 5, 2018
CAD	3,418	2,191	21	January 7, 2019	3,740	2,487	(40)	January 5, 2018
GBP	(1,738)	(1,943)	17	January 7, 2019	(2,190)	(2,468)	3	January 5, 2018
Other currencies	na	(1,196)	2	January 7 and 8, 2019	na	235	(37)	January 5 and 9, 2018
Total		**583**	**45**			**7,782**	**(63)**	

(1) For each currency, net balance of forward sales and (purchases) against euros.

(2) Equivalent value of forward contracts is calculated by dividing 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, 2018 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 used for information purposes by the banks with which these forward currency contracts were entered into.

With the exception of the subsidiaries located in Mexico, Russia, South Korea, Tunisia and Turkey (individually representing less than 6% and together less than 10% 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, 2018 and December 31, 2017:

	2017					
(in thousands of currencies)	USD	BRL	CAD	GBP	RON	SGD
Carrying position to be hedged:						
Trade account receivables	9,882	16,264	3,727	-	90	-
Cash	3,097	-	-	-	-	-
Trade payables	(5,929)	(13,738)	-	(2,129)	(155)	(1,639)
Total	7,050	2,526	3,727	(2,129)	(65)	(1,639)
Net nominal of hedges	(9,029)	-	(3,740)	2,190	(46)	1,362
Net residual position	(1,980)	2,526	(13)	61	(111)	(277)
Equivalent value in euros at closing rate	(1,651)	636	(8)	68	(24)	(173)
Analysis of sensitivity to currency fluctuations						
Closing rate	1.20	3.97	1.50	0.89	4.66	1.60
5% currency appreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.26	4.17	1.58	0.93	4.89	1.68
Foreign exchange impact in P&L	79	(30)	0	(3)	1	8
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.14	3.77	1.43	0.84	4.43	1.52
Foreign exchange impact in P&L	(87)	33	0	4	(1)	(9)

(in thousands of currencies)	USD	BRL	2018 CAD	GBP	RON	SGD
Carrying position to be hedged:						
Trade account receivables	11,989	13,823	3,306	(3)	263	-
Cash	173	-	-	-	-	-
Trade payables	(6,906)	(11,890)	-	(1,721)	(154)	(1,783)
Total	5,256	1,933	3,306	(1,724)	109	(1,783)
Net nominal of hedges	(1,754)	-	(3,418)	1,738	(298)	1,301
Net residual position	3,502	1,933	(112)	15	(189)	(482)
Equivalent value in euros at closing rate	3,059	435	(72)	16	(41)	(309)
Analysis of sensitivity to currency fluctuations						
Closing rate	1.15	4.44	1.56	0.89	4.66	1.56
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.20	4.67	1.64	0.94	4.90	1.64
Foreign exchange impact in P&L	(146)	(21)	3	(1)	2	15
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.09	4.22	1.48	0.85	4.43	1.48
Foreign exchange impact in P&L	161	23	(4)	1	(2)	(16)

NOTE 19. TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	23,212	25,383
Social debts	22,672	23,987
Fiscal debts	4,640	4,944
Down-payments from customers	8,358	7,485
Other current payables	782	600
Total	**59,664**	**62,399**

NOTE 20. DEFERRED REVENUES

	2018	2017
Deferred revenues on recurring contracts	51,983	48,713
Other deferred revenues(1)	4,243	4,300
Total	**56,225**	**53,013**

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

The counterpart of deferred revenues that has not yet been collected is recorded for the same amount (plus VAT and related taxes) in ‘Trade accounts receivable’ in the statement of financial position (see note 13). Deferred revenues correspond to contract liabilities as defined by IFRS 15.

BRIDGE FOR MAIN CONTRACT LIABILITIES	2018	2017
Contract liabilities at January 1	48,713	49,913
Revenue booked during the period	(91,394)	(88,387)
Invoicing during the period	94,563	89,314
Change in scope of consolidation [1]	53	-
Reclassification	-	93
Exchange rate differences	48	(2,220)
Contract liabilities at December 31	**51,983**	**48,713**

(1) Integration of Kubix Lab in 2018, see note 2.29

NOTE 21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

2017	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2017	684	1,646	456	595	3,382
Additional provisions	1,004	105	-	1,441	2,550
Used amounts reversed	(437)	-	(25)	(1,201)	(1,663)
Unused amounts reversed	(247)	-	(48)	(6)	(301)
Exchange rate differences	-	(234)	(3)	-	(238)
Provisions at December 31, 2017	**1,004**	**1,517**	**380**	**830**	**3,730**

2018	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2018	1,004	1,517	380	830	3,730
Additional provisions	941	413	35	1,334	2,722
Used amounts reversed	(435)	-	-	(1,355)	(1,791)
Unused amounts reversed	(269)	-	-	(119)	(388)
Exchange rate differences	-	(164)	(1)	-	(164)
Provisions at December 31, 2018	**1,241**	**1,765**	**414**	**689**	**4,110**

CONTINGENT LIABILITIES

The Group had no knowledge, at the date of Board of Directors' meeting to draw up the accounts, of any contingent liability at December 31, 2018.

To the Group's knowledge, there were no proceedings pending at December 31, 2018, 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:

		IFRS 9 classification				
At December 31, 2017	*Previous IAS 39 category*	Carried at amortized cost	Carried at fair value through profit or loss	Carried at fair value through OCI	Carrying amount	Fair value
Non-consolidated shares	*Available for sale financial assets*		X		924	924
Loans, deposits and guarantees	*Loans and receivables*	X			1,643	1,643
Trades account receivables	*Loans and receivables*	X			55,065	55,065
Other financial assets	*Loans and receivables*	X			543	543
Derivatives not designated as hedges	*Financial assets at fair value through profit or loss*		X		63	63
Cash and cash equivalents	*Fair value through profit or loss*		X		98,134	98,134
Total financial assets					**156,372**	**156,372**
Derivatives not designated as hedges	*Financial liabilities at fair value through profit or loss*		X		-	-
Trade payables and other current liabilities	*Financial liabilities carried at amortized*	X			57,455	57,455
Total financial liabilities					**57,455**	**57,455**

At December 31, 2018	*IAS 39 category*	IFRS 9 classification				
		Carried at amortized cost	Carried at fair value through profit or loss	Carried at fair value through OCI	Carrying amount	Fair value
Non-consolidated shares	*Available for sale financial assets*		X		974	974
Loans, deposits and guarantees	*Loans and receivables*	X			-	-
Trades account receivables	*Loans and receivables*	X			58,564	58,564
Other financial assets	*Loans and receivables*	X			1,053	1,053
Derivatives not designated as hedges	*Financial assets at fair value through profit or loss*		X		-	-
Cash and cash equivalents	*Fair value through profit or loss*		X		102,223	102,223
Total financial assets					**162,814**	**162,814**
Derivatives not designated as hedges	*Financial liabilities at fair value through profit or loss*		X		45	45
Trade payables and other current liabilities	*Financial liabilities carried at amortized*	X			55,024	55,024
Total financial liabilities					**55,069**	**55,069**

Fair value of current loans and trade accounts receivable, trade payables and other current liabilities is identical to their book value, given their short-term nature. For loans and deposits included in other non-current financial assets, their fair value is deemed close to their book value, since the discounting effect is considered negligible.

NOTE 23. ADDITIONAL DISCLOSURES

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	3,810	9,335	3,405	16,551
Rental contracts: others(1)	5,992	6,141	-	12,133
Total rental contracts	**9,802**	**15,476**	**3,405**	**28,683**
Other guarantees: sureties(2)	3,170	56	268	3,494

(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 2018 amounted to €10,866,000.

COMMITMENTS RECEIVED

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

Notes to the income statement

consolidated

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 2018 and 2017 are also provided at 2017 exchange rates ("like-for-like"), as indicated in the notes concerned.

NOTE 24. REVENUES

In 2018, no single customer represents more than 4% 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 2018, as in 2017, almost 50% of total revenues were generated in 5 countries: the United States (11%), Mexico (11%), Italy (10%), China (10%) and France (6%). These percentages were 11%, 9%, 11%, 10% and 7% respectively in 2017.

The share of revenues generated in the United-Kingdom was less than 3%. Greece's and Russia's share of revenues is immaterial.

	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	111,559	39%	111,968	117,050	42%	-5%	-4%
- France	16,538	6%	16,532	18,400	7%	-10%	-10%
Americas	76,146	27%	80,005	68,931	25%	+10%	+16%
Asia-Pacific	75,334	27%	77,556	72,098	26%	+4%	+8%
Other countries	19,519	7%	19,747	19,122	7%	+2%	+3%
Total	282,558	100%	289,275	277,201	100%	+2%	+4%
€ / $ average parity	*1.18*		*1.13*	*1.13*			

NOTE 24.2 REVENUES BY PRODUCT LINE

	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
New CAD/CAM and PLM software licenses	13,902	5%	14,224	16,622	6%	-16%	-14%
CAD/CAM and PLM software evolution and online services contracts	37,577	13%	38,290	38,359	14%	-2%	0%
CAD/CAM and PLM subscription contracts	470	0%	476	53	0%	ns	ns
CAD/CAM equipment and accompanying software	93,840	33%	95,887	90,889	32%	+3%	+5%
CAD/CAM equipment and accompanying software maintenance and online services contracts	53,347	20%	54,719	49,975	18%	+7%	+9%
Consumables and parts	68,443	24%	70,401	65,757	24%	+4%	+7%
Training and consulting services	12,654	4%	12,916	13,241	5%	-4%	-2%
Miscellaneous	2,325	1%	2,363	2,305	1%	+1%	+3%
Total	282,558	100%	289,275	277,201	100%	+2%	+4%
€ / $ average parity	*1.18*		*1.13*	*1.13*			

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

	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales(1)	122,721	43%	125,389	123,057	44%	0%	+2%
Recurring revenues(2), of which:	159,837	57%	163,886	154,144	56%	+4%	+6%
- Recurring contracts	91,394	33%	93,485	88,387	32%	+3%	+6%
- Consumables and spare parts	68,443	24%	70,401	65,757	24%	+4%	+7%
Total	282,558	100%	289,275	277,201	100%	+2%	+4%
€ / $ average parity	*1.18*		*1.13*	*1.13*			

(1) Revenues from new systems sales comprise sales of new CAD/CAM and PLM software licenses, CAD/CAM equipment and accompanying software, training and consulting and on-call interventions on the installed base.

(2) Recurring revenues fall into two categories:
- Recurring contracts: CAD/CAM and PLM software evolution and online services contracts, and CAD/CAM equipment and accompanying software maintenance and online services contracts, which are renewable annually;
- Revenues from sales of consumables and parts, which are statistically recurrent.

NOTE 24.4 BREAKDOWN OF REVENUES FROM NEW SYSTEMS SALES BY MARKET SECTOR

	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Fashion and apparel	57,383	47%	59,037	56,206	46%	+2%	+5%
Automotive	47,385	39%	47,967	47,445	39%	0%	+1%
Furniture	12,805	10%	13,078	12,824	10%	0%	+2%
Other industries	5,148	4%	5,307	6,582	5%	-22%	-19%
Total	**122,721**	**100%**	**125,389**	**123,057**	**100%**	**0%**	**+2%**
€ / $ average parity	*1.18*		*1.13*	*1.13*			

NOTE 24.5 BREAKDOWN OF REVENUES BY CURRENCY

	2018	2017
Euro	42%	43%
US dollar	33%	32%
Chinese yuan	9%	7%
Japanese yen	2%	2%
British pound	2%	2%
Other currencies(1)	12%	14%
Total	**100%**	**100%**

(1) No other single currency represents more than 2% of total revenues.

NOTE 24.6 REMAINING PERFORMANCE OBLIGATIONS

In its Management Discussion, the Group discloses an 'order backlog for new systems' corresponding to orders for new CAD/CAM and PLM software licenses, CAD/CAM equipment and training and consulting services. This entire 'order backlog' is due to be delivered within 12 months.

Moreover, the contract liabilities of the Group, corresponding to its deferred revenues, will also be reversed and booked as revenue in the 12 months following the closing date.

Thus, and according to IFRS 15.121, the Group does not hold any significant remaining performance obligation which it would have to disclose.

NOTE 25. COST OF GOODS SOLD AND GROSS PROFIT

	2018	2017
Revenues	282,558	277,201
Cost of goods sold, of which:	(79,014)	(75,269)
Purchases and freight-in costs	(73,333)	(72,485)
Inventory movement, net	3,442	6,105
Industrial added value	(9,124)	(8,889)
Gross profit	**203,544**	**201,932**
(in % of revenues)	72.0%	72.8%

Personnel 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

	2018	2017 (1)
Fixed personnel costs	(24,884)	(23,440)
Variable personnel costs	(1,016)	(886)
Other operating expenses	(3,302)	(2,128)
Depreciation expenses	(1,259)	(920)
Total before research tax credit and grants(2)	**(30,461)**	**(27,374)**
(in % of revenues)	10.8%	9.9%
Research tax credit and government grants	8,964	7,567
Total	**(21,497)**	**(19,807)**

(1) In 2018, the scope of R&D teams was reviewed to encompass the teams involved in the design and development of Lectra's offer. The 2017 amounts have been restated to allow for comparison with 2018.

(2) This amount includes, in fixed personnel expenses, the relative share of the (French) competitiveness and employment tax credit. Before this deduction, it would amount to €30,807,000 (€27,742,000 in 2017) that is 10.9% of revenues (10.0% in 2017).

NOTE 27. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017 (1)
Fixed personnel costs	(84,404)	(82,341)
Variable personnel costs	(11,639)	(13,509)
Other operating expenses	(41,960)	(42,710)
Depreciation expenses	(3,378)	(3,401)
Net provisions	(417)	(890)
Total (2)	**(141,798)**	**(142,851)**
(in % of revenues)	50.2%	51.5%

(1) In 2018, the scope of R&D teams was reviewed to encompass the teams involved in the design and development of Lectra's offer. The 2017 amounts have been restated to allow for comparison with 2018.

(2) 'Selling, general and administrative expenses' do not include the expenses comprised in 'Industrial added value' (see note 25), which amounted to €9,124,000 in 2018 and €8,889,000 in 2017.

FEES PAID TO GROUP AUDITORS AND COMPANIES IN THEIR NETWORKS

In 2018, other operating expenses comprised €787,000 in respect of the audit of all Group companies, of which €458,000 for PricewaterhouseCoopers, €266,000 for KPMG and €63,000 for other audit firms, excluding non-audit services. The corresponding amount in 2017 was €802,000.

Fees paid by the Group in 2018 to the Statutory Auditors in respect of the audit and non-audit services performed by their networks to consolidated entities were €988,000, of which €623,000 for PricewaterhouseCoopers and €365,000 for KPMG:

	PwC				KPMG			
	Amount		%		Amount		%	
	2018	2017	2018	2017	2018	2017	2018	2017
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
- Issuer (Lectra SA)	154	151	25%	28%	133	131	36%	38%
- Fully-consolidated subsidiaries	304	293	49%	54%	133	166	36%	49%
Non-audit services								
- Issuer (Lectra SA)(1)	-	-	0%	0%	21	19	6%	6%
- Fully-consolidated subsidiaries	-	-	0%	0%	-	-	0%	0%
Subtotal	**458**	**444**	**74%**	**81%**	**287**	**316**	**79%**	**93%**
Other services to consolidated entities								
- Legal, tax and social reviews(2)	165	103	26%	19%	78	25	21%	7%
Subtotal	**165**	**103**	**26%**	**19%**	**78**	**25**	**21%**	**7%**
Total	**623**	**547**	**100%**	**100%**	**365**	**341**	**100%**	**100%**

(1) These services relate to the verification, by one of the statutory auditors, designated as independent third-party, of social, environmental and societal information.

(2) These missions mostly relate to tax compliance services provided by members of the network to foreign subsidiaries of the Company.

NOTE 28. STAFF

NOTE 28.1 TOTAL PERSONNEL EXPENSES

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

	2018	2017[(1)]
Research and development	(25,900)	(24,326)
Selling, general and administrative	(96,043)	(95,850)
Manufacturing, logistics and purchasing[(2)]	(6,409)	(6,199)
Total	**(128,353)**	**(126,375)**

(1) In 2018, the scope of R&D teams was reviewed to encompass the teams involved in the design and development of Lectra's offer. The 2017 amounts have been restated to allow for comparison with 2018.

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

Personnel expenses for 2018 are presented after deduction of the (French) competitiveness and employment tax credit, amounting to €971,000 (€1,016,000 in 2017).

NOTE 28.2 HEADCOUNT AT DECEMBER 31

	2018	2017
Parent company[(1)]	870	842
Subsidiaries[(2)], of which:	823	815
- Europe	330	318
- Americas	174	177
- Asia-Pacific	248	247
- Other countries	71	73
Total	**1,693**	**1,657**

(1) In 2018 as in 2017, 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

	2018	2017
Marketing, Sales	338	328
Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance)	541	511
Research and Development	346	326
Purchasing, Production, Logistics	163	166
Administration, Finance, Human Resources, Information Systems	304	326
Total	**1,693**	**1,657**

NOTE 28.3 CONTRIBUTIONS TO PENSION PLANS

Contributions to compulsory or contractual pension plans are expensed in the year in which they are paid. In 2018, Group companies subject to defined-contribution pension plans booked a sum of €5,774,000 under personnel costs in respect of their contributions to these pension or retirement funds. The main subsidiary concerned, in addition to the parent company, was Italy.

NOTE 28.4 EMPLOYEE PROFIT-SHARING AND INCENTIVE PLAN

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.

In 2019, a payment for profit-sharing totaling €741,000 will be made, in respect of fiscal year 2018 (€637,000 paid in 2018, in respect of fiscal year 2017).

Incentive plan

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 2017 covers the period 2017–2019.

The incentive amount in respect of fiscal 2018 equals €1,328,000 (€2,176,000 in respect of 2017). For fiscal 2018, an interim payment of €496,000 was made in November 2018, the balance outstanding to be paid in the first half of 2019.

Thus, the cumulative amount of profit-sharing and incentive plans totaled €2,069,000 in respect of fiscal 2018 (€2,813,000 in respect of fiscal 2017).

NOTE 28.5 COMPENSATION OF GROUP MANAGEMENT

Following the resignation of André Harari from his functions as Director and Chairman of the Board of Directors, on July 27, 2017, the Board of Directors had opted for the combination of functions of Chairman of the Board of Directors and Chief Executive Officer and nominated Daniel Harari as Chairman and Chief Executive Officer. Thus, since then, the Group management team consists of one Company Officer: the Chairman and Chief Executive Officer; the Executive Vice President, the Chief Transformation Officer, the Chief Sales Officer and the Chief Marketing and Communications Officer.

Personnel expenses related to the Group management team, accounted for in 2018, amounted to €2,288,000 (€2,784,000 in 2017) and broke down as follows:

	2018	2017
Fixed compensation	1,342	1,336
Variable compensation	682	1,232
Other short-term benefits	130	128
Post-employment benefits[1]	19	18
Other long-term benefits	-	-
Severance compensation	-	-
Granting of stock options[1]	115	70
Personnel expenses related to the Group management team	**2,288**	**2,784**

(1) The Company Officers (dirigeants mandataires sociaux) are not granted 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. They hold no stock options.

NOTE 28.6 DIRECTORS' FEES

Conditional upon approval by the Shareholders' Meeting on April 30, 2019, €239,000 in Directors' fees will be allocated to the members of the Board with respect to fiscal 2018 (€226,000 with respect to fiscal 2017). Compensation paid to the four Directors who are not Company Officers 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 and their allocation between income statement items:

	2018	2017
Research and development[1]	(1,259)	(920)
Selling, general and administrative	(3,378)	(3,401)
Manufacturing, logistics and purchasing[2]	(740)	(928)
Total	**(5,377)**	**(5,249)**

(1) Amortization and depreciation expenses 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

	2018	2017
Financial income, of which:	231	223
Gains on sales of cash equivalents	42	58
Other interest income	164	107
Reversal of provisions for depreciation of investments and loans	25	58
Financial expenses, of which:	(443)	(493)
Bank charges	(440)	(483)
Interest expense on bank loans and financial debts	-	-
Other financial expenses	(3)	(10)
Total	**(212)**	**(270)**

NOTE 31. FOREIGN EXCHANGE INCOME (LOSS)

A foreign exchange translation loss of €1,120,000 was recognized in 2018 (€574,000 in 2017).
At December 31, 2018, as at December 31, 2017, the Company held no currency options (see note 18.4).

NOTE 32. SHARES USED TO COMPUTE EARNINGS PER SHARE

At December 31, 2018 and 2017, the Company had not issued any dilutive instrument other than the stock options detailed in note 15.5.

Basic earnings per share	2018	2017
Net income (in thousands of euros)	28,740	29,264
Weighted average number of shares outstanding during the period(1)	31,723,203	31,415,809
Weighted average number of treasury shares held during the period	(25,703)	(11,849)
Weighted average number of shares used to compute basic earnings per share	31,697,500	31,403,960
Basic earnings per share (in euros)	**0.91**	**0.93**

(1) In 2018, 275,661 stock options were exercised, giving rise to the creation of 275,661 new shares. In 2017, 323,542 stock options were exercised, giving rise to the creation of 323,542 new shares (see note 15).

Diluted earnings per share	2018	2017
Net income (in thousands of euros)	28,740	29,264
Weighted average number of shares outstanding during the period(1)	31,723,203	31,415,809
Weighted average number of treasury shares held during the period	(25,703)	(11,849)
Dilutive effect of stock options, under the share repurchase method(2)	635,569	939,843
Weighted average number of shares used to compute diluted earnings per share	32,333,069	32,343,804
Diluted earnings per share (in euros)	**0.89**	**0.90**

(1) In 2018, 275,661 stock options were exercised, giving rise to the creation of 275,661 new shares. In 2017, 323,542 stock options were exercised, giving rise to the creation of 323,542 new shares (see note 15).

(2) In 2018, due to an average share price of €21.37 during the period, the dilutive effect of stock options under the share repurchase method resulted in 635,959 theoretical additional shares (939,843 theoretical additional shares in 2017 due to an average share price of €23.62).

NOTE 33. INCOME STATEMENT AT CONSTANT EXCHANGE RATES

	2018		2017	Changes 2018/2017	
	Actual	At 2017 exchange rates	Actual	Actual	Like-for-like
Revenues	282,558	289,275	277,201	+2%	+4%
Cost of goods sold	(79,014)	(79,679)	(75,269)	+5%	+6%
Gross profit	203,544	209,596	201,932	+1%	+4%
Research and development	(21,497)	(21,497)	(19,755)	+9%	+9%
Selling, general and administrative expenses	(141,798)	(144,578)	(142,903)	-1%	+1%
Income from operations	**40,249**	**43,522**	**39,274**	**+2%**	**+11%**
(in % of revenues)	14.2%	15.0%	14.2%	0.0 point	+0.8 points
€ / $ average parity	*1.18*	*1.13*	*1.13*		

The Company's net operational exposure to foreign exchange fluctuations corresponds to the difference between revenues and total costs denominated in each of these currencies. This exposure mainly concerns the US dollar, which is the main currency in which business is transacted after the euro.

The overall currency variations between 2017 and 2018 decreased 2018 Group revenues by €6,717,000 and income from operations by €3,273,000.
The US dollar (average parity versus the euro of $1.18/€1 in 2018, compared to $1.13/€1 in 2017) accounted for a decrease of €3,941,000 in revenues and of €2,734,000 in income from operations in the 2018 figures at actual exchange rates, relative to the 2018 figures at 2017 exchange rates.
In 2018, 42% of the Group's consolidated revenues, 86% of its cost of sales, and 67% of its overhead expenses were denominated in euros. These percentages were respectively 33%, 9%, and 11% for the US dollar, as well as 9% (part of the revenues generated in China are denominated in US dollars or other currencies), 3% and 6% for the Chinese yuan. The other currencies each represented less than 3% of revenues, cost of sales and overhead costs.

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

The sensitivity of revenues and income from operations to a change in exchange rates was based on the December 31, 2018 exchange rates for the relevant currencies, in particular $1.15/€1.
In view of the estimated share of revenues and costs denominated in US dollars or in currencies correlated with the US dollar, a 5-cent fall in the euro against the US dollar (leading to an annual average exchange rate of $1.10/€1) would mechanically increase 2018 annual revenues by approximately €4.6 million and annual income from operations by €3 million. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. $1.20/€1) would mechanically reduce annual revenues and income from operations by the same amounts.
In addition to fluctuating against the US dollar and currencies strongly correlated with it, the euro also fluctuates against other currencies. These variations are frequently dissimilar both in direction (upward and downward) and in scale.

NOTE 34. OPERATING SEGMENTS INFORMATION

2018	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	111,559	76,146	75,334	19,519	-	**282,558**
Income (loss) from operations	15,605	12,676	4,921	4,227	2,820	**40,249**

2017 (1)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	117,050	68,931	72,097	19,123	-	**277,201**
Income (loss) from operations	18,329	9,821	3,428	3,916	3,780	**39,274**

(1) The 2017 amounts have been restated in order to account for the change in gross profit margins (see below) and allow for comparison with 2018.

The standard gross profit margins used to determine the performance of operating segments have been changed from January 1, 2018, to take into account the cost structure resulting from the implementation of the Group's 2017–2019 roadmap. This new allocation of gross profit between marketing regions and the Corporate segment allows for a more relevant analysis of performance by operating segment. The new margins will leave the income from operations for the Corporate segment close to zero over the full year, but seasonal variations of revenues and overhead costs may lead to a different result every quarter.
Income from operations before non-recurring items, which is obtained by adding together the income for each segment, is identical to consolidated income from operations before non-recurring items shown in the Group's consolidated financial statements and therefore does not require reconciliation.

NOTE 35. NON-CASH OPERATING EXPENSES

In 2018, as in 2017, '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 2.28 – 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 36. CHANGES IN WORKING CAPITAL REQUIREMENT

In 2018, the main changes in the working capital requirement broke down as follows:

- +€82,000 corresponding to the increase in trade accounts receivable (the variation in trade accounts receivable shown in the consolidated statement of cash flows 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);
- +€4,918,000 corresponding to the increase in inventories, due to the increase in manufacturing activity, notably the launch of a new offer for the cutting room;
- −€6,857,000 arising from the balance outstanding relating to the 2014 research tax credit received in Q4 2018;
- +€2,506,000 corresponding to a decrease in trade accounts payable;
- +€2,191,000 arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2017 paid mainly in 2018, and the one recognized during fiscal 2018 and payable in 2019;
- +€841,000 arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

In 2017, the main changes in the working capital requirement (decrease of €7,840,000) broke down as follows:

- −€3,464,000 corresponding to the decrease in trade accounts receivable;
- +€7,112,000 corresponding to the increase in inventories, given the increased manufacturing activity and measures taken in order to reduce delivery times to customers;
- −€3,675,000 corresponding to an increase in trade accounts payable, due in particular to increased purchases of raw materials at the end of the year;
- −€6,407,000 arising from the balance outstanding relating to the 2013 research tax credit received in Q4 2017;
- −€992,000 arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2016 paid mainly in 2017, and the one recognized during fiscal 2017 and payable in 2018, for a higher amount;
- −€414,000 arising from the change in other current assets and liabilities; taken individually, these changes were all immaterial.

At December 31, 2018, as at December 31, 2017, the ratio of accounts receivable net of down payments received and deferred revenues, measured in DSO (Days Sales Outstanding) represented less than ten days of revenues (inclusive of VAT).

NOTE 37. REPAYMENT OF LONG-TERM AND SHORT-TERM BORROWINGS

In 2018 as in 2017, the Group did not contract any financial debts.

NOTE 38. 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.

	2018	2017
Net cash (used in)/provided by operating activities	28,783	41,027
Net cash (used in)/provided by investing activities, excluding cash used for acquisition of companies	(7,152)	(7,834)
Free cash flow	**21,631**	**33,193**

In 2018, net cash provided by operating activities of €28,783,000 (€41,027,000 in 2017) comprised a €3,681,000 increase in working capital requirement (decrease of €7,840,000 in 2017) and an increase in other operating non-current assets of €5,047,000, corresponding to the part of the 2018 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA (increase of €4,519,000 in 2017).
Details of changes in working capital requirement are provided in note 36 above.
Free cash flow was €21,631,000 and there were no non-recurring items. In 2017, it was €33,193,000 and there were no non-recurring items.

Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2018

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 readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. 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,

OPINION

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Lectra SA for the year ended December 31, 2018.
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 at December 31, 2018 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.
The audit opinion expressed above is consistent with our report to the Audit Committee.

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

INDEPENDENCE

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2018 to the date of our report, and, in particular, we did not provide any nonaudit services prohibited by article 5(1) of Regulation (EU) n° 537/2014 or the French Code of Ethics *(Code de déontologie)* for Statutory Auditors.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of articles L. 823-9 and R. 823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.
These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

RECOGNITION OF EXPORT REVENUES (NOTE 2.18)

Description of risk

The Group markets integrated technology solutions (automated cutting equipment and software) and related services, such as technical maintenance, remote support, training, consulting, and sales of consumables and parts
In 2018, the Group's revenues amounted to €282.6 million. Most sales of CAD/CAM equipment and related software (€93.8 million) are made outside France, by Lectra SA directly or by its subsidiaries.
The terms and conditions for the transfer of the risks and benefits (Incoterms) relating to these sales vary according to destination and customer. Given that there are multiple conditions to be taken into account, there is a risk of error when determining the revenue recognition date, particularly around the closing date.
Accordingly, we deemed the recognition of export revenues to be a key audit matter, in light of the following factors:

- the significant impact on the Group's financial statements;
- the importance of Incoterms for estimating the risk and benefit transfer dates, as determined pursuant to the sales contracts.

How our audit addressed this risk

Our audit approach for export sales is based on our work on revenue recognition and includes both tests of internal control processes and substantive procedures.

Our work on internal control mainly focused on examining the procedures implemented by the Group and tests of the control that we identified as key for our audit, particularly regarding the conclusion of sales contracts and invoicing.

Based on a sample of sales from December 2018 and January 2019, our substantive procedures for revenues mainly consisted of:

- reconciling invoices issued for corresponding contracts and the delivery documents relating to the invoices;
- ensuring that Incoterms have been properly taken into account.

MEASUREMENT OF GOODWILL (NOTES 2.3, 2.6 AND 6)

Description of risk

As part of the development of its business, the Group carried out external growth operations and thus needed to recognize the resulting goodwill on its balance sheet. Goodwill corresponds to the difference between the acquisition cost and the fair value of the assets acquired and liabilities assumed, as described in Note 2.3 to the consolidated financial statements.

It is monitored by sales subsidiary or group of several sales subsidiaries that pool resources in the same geographic region (cash-generating units – CGUs).

Every year, management verifies that the carrying amount of this goodwill, for which an amount of €39.5 million was recorded in the balance sheet in this particular instance, is lower than its recoverable amount and that there is no risk of impairment.

The methods used to perform impairment tests and details of the assumptions used are described respectively in Notes 2.6 and 6 to the consolidated financial statements.

Given the materiality of the amounts involved and the degree of judgment required from management in terms of determining the growth and margin rates to be applied to cash flow projections and the applicable discount rates, we deemed the measurement of goodwill to be a key audit matter.

How our audit addressed this risk

We reviewed the compliance of the methodology applied by the Group with current accounting standards.

We also performed a critical assessment of the procedure for implementing the methodology described in Notes 2.6 and 6 to the consolidated financial statements and verified:

- the consistency between the inputs included in the determination of the carrying amount of the Group's different CGUs and those included in cash flow projections;
- the reliability of the process used to prepare the estimates by examining the reasons for any differences between the outcomes projected in preceding years and the actual outcomes;
- the reasonableness of projected cash flows in terms of the economic and financial context of the Group's different CGUs, based on the most recent management estimates, which are validated by the Strategic Committee, and market analyses;
- the calculation of the discount rates applied to the estimated future cash flows expected for the different CGUs, verifying that the various inputs used to calculate the weighted average cost of capital were sufficient to approximate the return expected by market participants for such an activity;
- the analysis performed by management to ascertain the sensitivity of value in use to changes in the main assumptions used, as set out in Note 6 to the consolidated financial statements.

SPECIFIC VERIFICATIONS

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the information pertaining to the Group provided in the management report includes the consolidated non-financial information statement required under article L. 225-102-1 of the French Commercial Code. However, in accordance with article L. 823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Lectra SA by the Annual General Meetings held on June 28, 1990 for PricewaterhouseCoopers Audit SA and May 22, 1996 for KPMG SA.

At December 31, 2018, PricewaterhouseCoopers Audit SA and KPMG SA were in the twenty-ninth and twenty-third year of total uninterrupted engagement, respectively.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in article L. 823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were the most significant for the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) n° 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Mérignac, February 26, 2019

The Statutory Auditors

KPMG SA	PricewaterhouseCoopers Audit
Jean-Pierre Raud	Matthieu Moussy

Biographies of Lectra Directors and members of the Group Executive Committee

The biographies of the Board of Directors' members appear on page 39 of this report within the Report on Corporate Governance.

Daniel Harari (64)

Daniel Harari has been Chairman and Chief Executive Officer of Lectra since July 27, 2017 and President of the Executive Committee since its creation in 2005.
Daniel Harari began his career as Vice President of the Société d'Études et de Gestion Financière Meeschaert, specializing in wealth management (Paris, 1980-1983). He then became Chairman and Chief Executive Officer of La Solution Informatique (Paris, 1984-1990), a PC distribution and services company, and of Interleaf France (1986-1989), a subsidiary of the US software publisher, both of which he founded. In 1986, he was appointed General Manager of Compagnie Financière du Scribe (Paris), a venture capital firm specializing in technology companies, where he was, along with his brother André Harari, the main shareholder until its merger-takeover by Lectra on April 30, 1998. He was appointed Chairman and Chief Executive Officer of Lectra in 1991, following the takeover of the company by Compagnie Financière du Scribe, and then Lectra's Chief Executive Officer from 2002 to 2017.
A graduate of École Polytechnique (France), Daniel Harari holds an MBA from HEC (France).

Jérôme Viala (57)

Jérôme Viala has been Executive Vice President of Lectra since January 1, 2017 and Vice Chairman of the Executive Committee since January 15, 2019, of which he has been a member since its creation in 2005.
Jérôme Viala began his career as a credit analyst at Esso (France) before joining Lectra's financial department in 1985. He then held the positions of Controller for Europe and North America (1988-1991) and Chief Financial Officer of Lectra France (1992-1993), then of the products division (1993-1994). He was Chief Financial Officer of the group from 1994 to 2016.
Jérôme Viala is a graduate of KEDGE Business School (France).

Maximilien Abadie (30)

Maximilien Abadie has been Chief Strategy Officer since July 1, 2016 and a member of the Executive Committee since January 15, 2019.
Maximilien Abadie joined Lectra in 2012 as a project manager under the supervision of André Harari and Daniel Harari. He was then appointed to Strategic Planning Analyst in 2013.
Maximilien Abadie holds a MSc in finance from Bocconi University (Italy), as well as a BA in management from Paris-Dauphine University (France) and a BA in econometrics from Paris-Assas University (France).

Fabio Canali (57)

Fabio Canali is President, Southern Europe & North Africa and has been a member of the Executive Committee since January 15, 2019.
Fabio Canali began his career as a CAD Systems Manager at Canali, a leading Italian men's fashion brand. In 1984, he joined the Italian subsidiary of Investronica as a software manager. He was promoted to Vice President Sales in 1991 and Managing Director in 1997. Following Lectra's acquisition of Investronica, he was appointed to Managing Director of Lectra Italy in 2004.
Fabio Canali holds a BA in Computer Science from I.T.I. Pino Hensemberg (Italy).

Olivier du Chesnay (44)

Olivier du Chesnay has been Chief Financial Officer since September 1, 2017 and a member of the Executive Committee since January 15, 2019.

Olivier du Chesnay began his career within the Saint Gobain Group as a plant controller, before working for three years as a consultant and a project manager at Accenture France. Bacou-Dalloz, a leader in protection and safety equipment, appointed him Division Controller, then EMEA's Chief Financial Officer in the distribution division, and finally Group Controller. In 2010, Bacou-Dalloz (then Sperian Protection) was acquired by Honeywell, who appointed him to Chief Financial Officer and a member of the Executive Committee of the Europe & Middle East Division of Honeywell Safety Products. He joined Lectra in 2013 as Deputy Chief Financial Officer.

Olivier du Chesnay is a graduate of EDHEC (France) and the London School of Economics (UK).

Céline Choussy (42)

Céline Choussy is Chief Marketing & Communications Officer and has been a member of the Executive Committee since July 1, 2016.

Céline Choussy began her career in 2000 at Dassault Systèmes as a marketing manager within the partnerships division. After five years at headquarters in France, she moved to the United States to focus on the strategic partnership with Microsoft. In 2008, she joined Autodesk as EMEA Marketing Manager in charge of manufacturing solutions, and was later promoted to Global Marketing Manager.

She joined Lectra in 2013 as Vice President Marketing, Automotive & Furniture before assuming the marketing responsibilities for all markets (2015) and communications (2016).

Céline Choussy is a graduate of KEDGE Business School (France).

Javier Garcia (48)

Javier Garcia has been President, Asia-Pacific and a member of the Executive Committee since January 15, 2019.

Javier Garcia joined Lectra in 2004 as Vice President Sales, Greater China after the acquisition of Investronica, where he had been, since 2000, the lead representative in China. Javier Garcia was appointed Vice President Strategic Accounts in 2012, and was promoted to Senior Vice President Global Sales, Automotive in 2016.

Javier Garcia holds a postgraduate degree in Chinese economics from Complutense University of Madrid (Spain) and Renmin University (China). He completed an Executive Education Program in strategic sales management and holds an Executive MBA from China Europe International Business School (China).

Laurence Jacquot (52)

Laurence Jacquot is Chief Customer Success Officer and has been a member of the Executive Committee since January 15, 2019.

Laurence Jacquot began her career as a buyer at Henkel, then became Head of General Purchasing at Sanofi. In 2000, she became Lectra's Vice President Purchasing before being appointed Vice President Industrial Operations in 2005. She was also in charge of Hardware R&D from 2010 to 2016. Laurence Jacquot was then promoted to Senior Vice President Industrial Operations and Cutting Room R&D in 2016.

Laurence Jacquot graduated from the Business School of Pau (France) and holds a master's degree in finance from Comillas Pontifical University, ICADE Business School, Madrid (Spain), as well as a Master 2 in International Purchasing Management (MAI) from KEDGE Business School (France).

Édouard Macquin (53)

Édouard Macquin has been President, Americas since January 15, 2019 and a member of the Executive Committee since 2014.

Édouard Macquin joined Lectra in 1987 as an R&D engineer. He then assumed various responsibilities in consulting, services, marketing and sales in France, Italy, the United States and Brazil. Édouard Macquin was appointed Managing Director of Lectra Brazil in 2000, followed by Managing Director of Lectra South America in 2005. He was then promoted to Chief Sales Officer in 2011.

Édouard Macquin holds an MBA from São Paulo Business School (Brazil).

Holger Max-Lang (57)

Holger Max-Lang is President, Northern & Eastern Europe, Middle East and has been a member of the Executive Committee since January 15, 2019.

Holger Max-Lang joined Lectra Germany in 2002 as an Automotive Account Director after holding various marketing and sales positions in IT and automotive companies, including Mitsubishi Electric, Borealis, Klein Plastik and Allocation Network. He then assumed management positions for Lectra in Germany, Eastern Europe and Russia, before his appointment as Managing Director of Lectra Germany, Eastern Europe & Russia in 2018.

Holger Max-Lang graduated with a degree in Sales and Marketing from Oskar Kämmer Schule (Germany).

Véronique Zoccoletto (59)

Véronique Zoccoletto has been Chief Transformation Officer since July 1, 2016 and a member of the Executive Committee since its creation in 2005.

Véronique Zoccoletto began her career at Singer (France) in 1983 as Controller, and then was head of the budget & internal audit department. From 1989 to 1991, she was Chief Financial Officer of SYS-COM Ingénierie (France), and then became the Chief Financial Officer of Riva Hugin Sweda (France). She joined Lectra in 1993 as Chief Financial Officer of Lectra France, and subsequently held the positions of Controller (1996-1998), Director of Sales Administration (1998-2000), Director of Organization and Information Systems (2000-2005) and Chief Human Capital Officer and Chief Information Officer (2005-2016).

Véronique Zoccoletto is a graduate of the University of Paris-Dauphine (France).

Board of Directors and Group Management

Board of Directors

Daniel Harari, *Chairman and Chief Executive Officer*
Anne Binder[1]
Bernard Jourdan[1], *Lead Director*
Ross McInnes[1]
Nathalie Rossiensky[1]

Audit Committee
Bernard Jourdan, *Chairman*
Anne Binder
Ross McInnes
Nathalie Rossiensky

Compensation Committee
Bernard Jourdan, *Chairman*
Anne Binder
Ross McInnes
Nathalie Rossiensky

Strategic Committee
Daniel Harari, *Chairman*
Anne Binder
Bernard Jourdan
Ross McInnes
Nathalie Rossiensky

Executive Committee

Daniel Harari, *Chairman & Chief Executive Officer, Chairman*
Jérôme Viala, *Executive Vice President, Vice Chairman*
Maximilien Abadie, *Chief Strategy Officer*
Fabio Canali, *President, Southern Europe & North Africa*
Olivier du Chesnay, *Chief Financial Officer*
Céline Choussy, *Chief Marketing & Communications Officer*
Javier Garcia, *President, Asia-Pacific*
Laurence Jacquot, *Chief Customer Success Officer*
Édouard Macquin, *President, Americas*
Holger Max-Lang, *President, Northern & Eastern Europe, Middle East*
Véronique Zoccoletto, *Chief Transformation Officer*

Group Management

Régis Bévillon, *Human Resources, France*
Alexandra Boisson, *Legal Affairs*
Nathalie Brunel, *Business Development, Fashion*
Olivier Dancot, *Data*
Frédéric Gaillard, *Product Marketing, Cutting Room*
Clémence de Lamaze, *Customer Experience*
Éric Lespinasse, *Manufacturing, Logistic, Quality, Purchasing*
Maria Modrono, *Marketing, Demand Generation*
Olivier Nold, *Business Development, Automotive and Furniture*
Philippe Ribera, *Innovation*

(1) Independent Director.

Americas

Édouard Macquin, *Americas*
Adriana Vono Papavero, *South America*

Asia-Pacific

Javier Garcia, *Asia-Pacific*
Yves Delhaye, *ASEAN, Australia, South Korea, India*
Akihiko Tanaka, *Japan*

Europe

Fabio Canali, *Southern Europe & North Africa*
Holger Max-Lang, *Northern & Eastern Europe, Middle East*
Gianluca Croci, *France*
Jean-Patrice Gros, *Northern Europe & United Kingdom*
Rodrigo Siza, *Spain & Portugal*

Other countries

Abdelaziz Sifaoui, *North Africa*
Michael Stoter, *South Africa*
Burak Susoy, *Turkey & Middle East*

Statutory Auditors

PricewaterhouseCoopers Audit SA
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A complete list of agents and distributors is available at lectra.com.

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