Annual Report

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Lectra

The 2016 Annual Report application for iPad is available to download on **lectra.com/investors**

Lectra is listed on Euronext.

In our new digital world, how can we continue to innovate, invent, and go beyond the limits? For over forty years, Lectra has supported the competitive strategies of companies in fashion and apparel, automotive and furniture industries, and other sectors, all over the world to anticipate the impact of profound changes in technology and societal conditions in their markets. Our customers are striving for operational excellence—to be more agile, to be faster and to be more flexible. To this end, we build robust and long-lasting partnerships with our customers, founded on our full understanding of creative and industrial processes today and for tomorrow. We create much more than technology solutions. We create value.

World leader, and a pioneer in Industry 4.0,

Lectra provides companies in fashion and apparel, automotive and furniture industries, and other sectors, with an unrivalled combination of advanced software, smart cutting machines and best-in-class services. Lectra's technologies are used by prestigious customers in more than 100 countries.

A strong corporate culture built on five values. Uncompromising ethics are paramount for Lectra in conducting business. Since its very beginning, diversity and respect for each individual have been the guiding characteristics of the company.

Entrepreneurship

Forty-three years after Lectra's creation, the company still retains a fundamental entrepreneurial spirit, constantly reinventing itself to build the future.

Leadership

Number one worldwide, Lectra always strives to go one step further and to foresee customers' needs. An aspiration shared by all Lectra teams.

Innovation

A passion for innovation drives Lectra's competitiveness. The company's technologies stem from Lectra's capacity to anticipate change and the expertise in its customers' businesses.

Excellence

Lectra's teams are constantly focused on achieving excellence and implementing best practices in all areas every day.

Customer care

Lectra builds relationships with customers based on trust in order to support their strategic drive for competitiveness. Customer loyalty is rooted in the proficiency, responsiveness, and proximity of Lectra's services' teams, as well as the requirement to satisfy customers.

Lectra milestones

1973
Company founded.

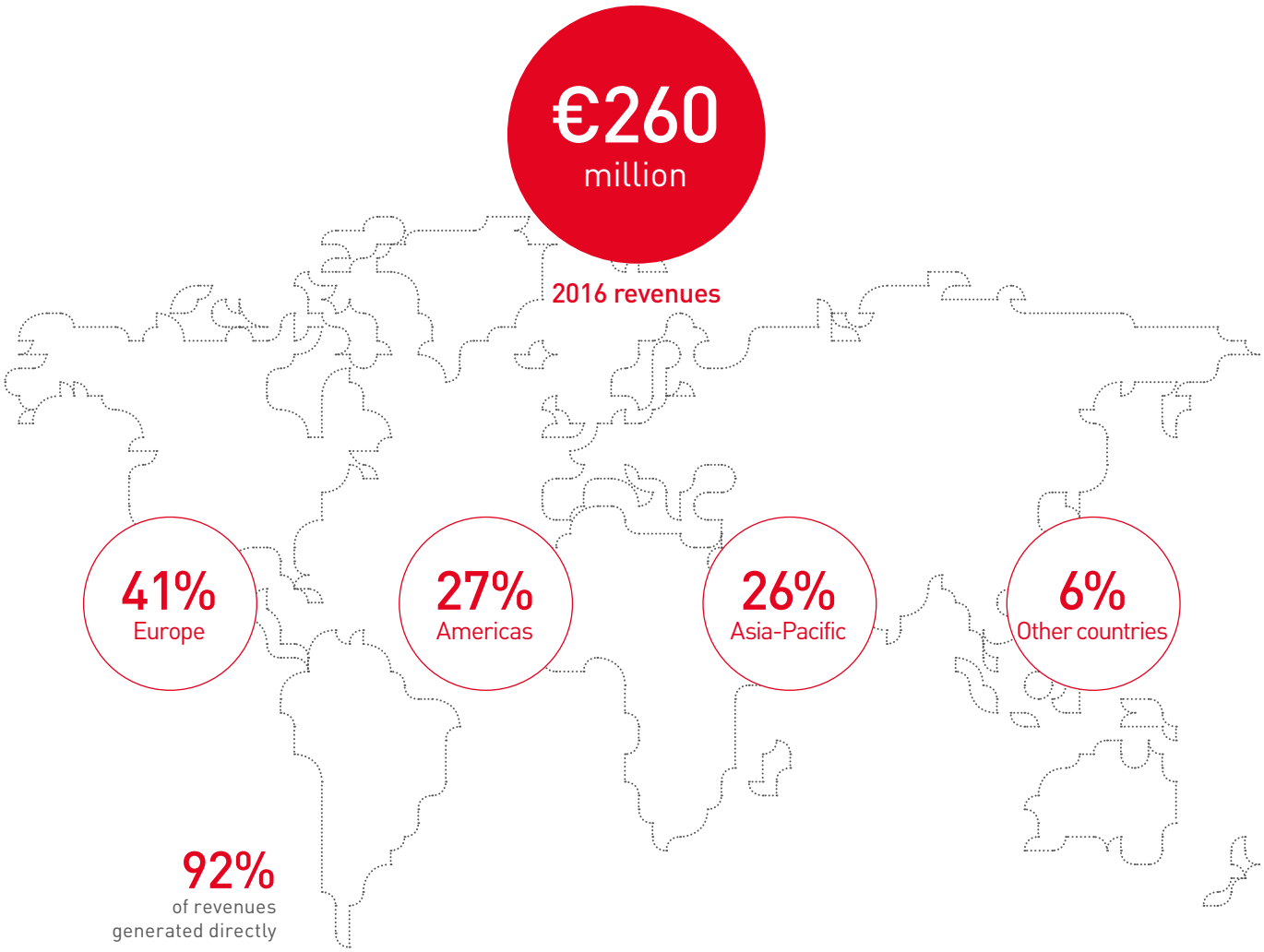
1976
First computer-aided design (CAD) systems sold. André Harari becomes a shareholder and helps Lectra's two founders to develop their business plan.

1985-1986
Lectra becomes the world number one in CAD solutions for fashion and apparel, and expands into computer-aided manufacturing (CAM).

1987
Initial public offering.

1991
After Lectra's serious financial 1990 crisis, André Harari and Daniel Harari recapitalize the company and take over its management.

2000
Lectra becomes number one worldwide in its industry.



92%
of revenues generated directly

1,550
employees

50
nationalities

33
sales and service subsidiaries

5
International Call Centers

An unmatched global footprint

A French company, Lectra has a unique worldwide presence. Lectra's teams combine expertise in customer businesses with a command of the most advanced technologies, to bring global, and local projects, to a successful conclusion, while respecting different cultures.

2010-2011
Lectra proves its resilience after the global economic crisis. Very strong rebound in sales activity. Record income and free cash flow. Lectra increases its leadership in the automotive industry.

2012
Renewal of the entire technology offer for fabric and leather cutting. New versions of Lectra's main software. Launch of the far-reaching company transformation and investments for the future plan.

2013-2016
Record financial results. The strategic roadmap and transformation plan reach their objectives. Commercial success for Lectra's new generation of laser-cutting solutions for airbags, launched end-2015.

INTERVIEW

André Harari and Daniel Harari

Record financial results. A successful transformation. A strong foundation for future developments.

"Our balance sheet is stronger than ever. Like-for-like, 2016 revenues were up 10% and income from operations rose 18%. These results demonstrate our ability to accelerate our organic growth and strengthen our profitability."

André Harari
Chairman of the Board of Directors

"In four years, total revenues have grown 31%, income from operations and net income multiplied respectively by 1.9 and 2. We generated €70.8 million in free cash flow and paid out €29.9 million in dividends to our shareholders."

Daniel Harari
Chief Executive Officer

How did the year 2016 work out?

André Harari. We achieved record financial results in 2016. Like-for-like, revenues were up 10%, at €260.2 million, and income from operations rose 18%, to €37.3 million. Net income, at actual exchange rates, rose 14% to €27 million. Our balance sheet is stronger than ever: we are debt-free, our net cash position has increased by 28% to €75.7 million, and our shareholders' equity rose 18% to €132.6 million. These numbers are particularly satisfactory given the persistently difficult macroeconomic and geopolitical conditions throughout the year, in some countries especially.

Your roadmap for 2013-2016 set ambitious financial targets: did you achieve them?

Daniel Harari. We did achieve them overall, at actual exchange rates. In four years, total revenues have grown 31%, income from operations and net income multiplied respectively by 1.9 and 2. The operating margin reached 14.3%, up 4.6 percentage points. We generated €70.8 million in free cash flow and paid out €29.9 million in dividends to our shareholders.

André Harari. These results demonstrate our ability to accelerate our organic growth and strengthen our profitability. Investors have welcomed them, lifting our share price from €4.73 at the end of 2012 to €18.02 at end-2016. In other words, Lectra's share price has been multiplied by 3.8, and our market capitalization by 4.1, rising to €563 million. I would like to thank our long-term shareholders for their enduring confidence over the years, as well as those who have joined us more recently.

What is your assessment of the Lectra 3.0 strategy?

André Harari. As early as 2009, we had anticipated a different post-crisis world, with new patterns of macroeconomic growth, a shake-up in all industry sectors, and so on. To build our future growth on solid foundations, we started with a blank page, building the Lectra 3.0 strategy with three main objectives: safeguard the company's financial condition, fundamentally rethink its value proposition and positioning, and enable it to emerge stronger from the unprecedented economic and financial crisis that hit the entire world. This strategy was rolled out through two roadmaps. The first, from 2010 to 2012, aimed at resetting Lectra in light of this new post-crisis economic order, to prepare the company for emerging challenges and to seize the resulting opportunities. The second, from 2013 to 2016, aimed at enabling Lectra to fulfill its growth potential.

Daniel Harari. Prioritizing our long-term strategy over short-term profitability, we embarked on a transformation plan backed by a €50 million investments for the future program, fully-expensed. Its aims comprised a major expansion and extensive renewal of our sales and marketing teams, bolstering our teams of software R&D engineers, and accelerating our investment in marketing. Lectra has emerged entirely transformed. It has bolstered our technological advance, enhanced the expertise of our teams and the value of our offer, notably in cutting room automation. It has boosted our overall competitiveness, forged strong relationships with prestigious customers in all of our main market sectors and geographic markets, consolidated our positions in automotive and fashion and apparel, and acquired strong positions in furniture.

André Harari. The result has been to enhance our capabilities in all areas and our assets are today stronger than ever.

How did you build your new strategic roadmap for 2017-2019?

André Harari. Having a clear vision, finding the answers to the most complex challenges, instilling energy and courage, never giving up, being prepared to take controlled risks, seizing opportunities, and constantly reinventing the company have been our driving forces, for Daniel and me, since we took over Lectra's management in 1990. Launching initiatives aimed at building for the future to create more value for our customers, our teams and our shareholders are part of our DNA as entrepreneurs. The 2017-2019 roadmap is fully in line with that and continues to prioritize the Company's long-term strategy.

Daniel Harari. We worked closely with our main customers in each of our market sectors and geographic markets to gain

"Launching initiatives aimed at building for the future to create more value for our customers, our teams and our shareholders are part of our DNA as entrepreneurs. The 2017-2019 roadmap continues to prioritize the Company's long-term strategy."

André Harari

insight into their changing business and societal environment, with wide regional variations. We concluded that four major trends would shape these markets. First, the Millennials, who are shaking up rules, behavior, needs and demands in terms of delivery times, 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. Thirdly, the emergence of Industry 4.0, now spearheading today's fourth industrial revolution, driven by real-time communication between different participants, objects, production lines and services. Lastly, China's evolving economy, as it accelerates its transition towards a growth model firmly anchored in consumption, added-value and productivity, under the impetus of the government's Made in China 2025 initiative. The impact of these four major trends is already perceptible on the world stage and will be felt with growing strength, generating many challenges for our customers.

Will these trends impact Lectra too?

Daniel Harari. Of course. For example, our new offer will take account of the Millennials' habit of communicating and acquiring information anytime, anywhere, and on any connected device. Similarly, the integration of new technologies will significantly enhance the value of our offer, bolstering our premium positioning and our competitive edge. China will be an increasingly important factor in our financial results and investment decisions, not only because of its expanding domestic market, but also because of the global consequences of coming changes, for Chinese and foreign firms alike. But the greatest impact will come from Industry 4.0. This 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. With nearly ten years' experience in the industrial Internet of Things, combined with its expertise in software solutions 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. The combination of SaaS—Software as a Service—with the cloud are opening up new horizons for innovation. We have been working on this for the past two years.

Where does this roadmap stand relative to the previous one?

André Harari. We framed the 2017-2019 strategic roadmap to enable Lectra to consolidate its global leadership within this new context and achieve sustained growth, while maintaining short-term profitability. We will continue to focus on our main market sectors, i.e. fashion and apparel, automotive and furniture, and to maintain our premium positioning, primarily targeting the Company's top 5,000 customers or potential customers across the world, compared to 3,000 in the previous roadmap. So this is not a disruptive strategy, rather a progressive shift to prepare Lectra for tomorrow's challenges.

Daniel Harari. We plan three phases. Phase 1 in 2017, during which we will develop and pilot test our new offer with

"Industry 4.0 presents an unprecedented opportunity for Lectra. With nearly ten years' experience in the industrial Internet of Things, combined with its expertise in software solutions, Lectra is in a formidable position to help customers step into this new industrial age."

Daniel Harari

selected customers. Phase 2 in 2018, during which we will progressively launch this offer. Phase 3 early 2019, to support its ramp-up across the world.

What are the strategic objectives of the roadmap?

André Harari. There are five. To accelerate revenue growth, both organic and through targeted acquisitions—the last ones dating back to 2004. To accentuate Lectra's technological leadership and leverage new technologies to further enhance the value of its product 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. And, finally, to maintain the Group's profitability and generate a high level of free cash flow in order to self-finance internal and external development.

What were the macroeconomic assumptions used to build your scenarios?

André Harari. Staying cautious, the roadmap is based on macroeconomic forecasts known at the beginning of 2017. These suggest a slight pick-up in global growth over the next 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 throughout the period.

Daniel Harari. However conditions turn out, our customers will have no choice but to adapt and deploy technologies compatible with Industry 4.0 in response to tomorrow's new challenges.

What are your financial targets?

André Harari. Based on like-for-like comparisons, we expect to see 6% to 12% annual organic revenue growth, reflecting increased revenues from new systems and higher recurring revenues, and 15% annual operating margin before non-recurring items, potentially lower in the first two years, to accelerate Lectra's shift to the new SaaS business model. All this while maintaining a security ratio—i.e. the percentage of annual fixed overhead costs covered by gross profit on recurring revenues—equal to, or greater than, 80%. Given the possible uncertainties, these objectives are subject to review over the three-year period. They will also be adjusted if the Company executes one or more targeted acquisitions. The strength of our business model, and the close fit between our roadmap and the demands of Industry 4.0, give us confidence in our medium-term growth prospects.

Daniel Harari. In addition to Industry 4.0 and SaaS offers, five other accelerators will boost Lectra's growth. China, as the country upgrades its manufacturing plant and expands its domestic market. Leather, which is increasingly used in the automotive and furniture industries, where almost all materials are still cut by hand, and 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. The personalization of consumer products, which will entail hefty investments in cutting-edge technology. Finally, digitalization of the fashion and apparel industry, which implies adopting collaborative technologies to facilitate management of collections and products.

Do you have the necessary resources to fulfill your growth potential?

Daniel Harari. Our sales and pre-sales consultant teams, as well as marketing, services, production and administrative staff will, from now on, grow more slowly than revenues. Moreover, Lectra's Bordeaux-Cestas industrial site already has the capacity, with another 50 or so employees, to increase its output by 50% with no major additional investment. However, we plan to step up our investments dedicated to the design and development of our offers. Which is

"By keeping innovation at the heart of our strategy we will bolster our competitive leadership and our value proposition."

Daniel Harari

why, starting in July 2016, we accelerated our R&D plan and why R&D expenditures will progressively rise, averaging around 10% of annual revenues over the period 2017-2019, versus 9.4% in the previous roadmap. A rise of about 50% of the amount of R&D investments in 2019 compared to 2016. By keeping innovation at the heart of our strategy we will bolster our competitive leadership and our value proposition.

Do you have a timetable for acquisitions?

Daniel Harari. We have sufficient cash on hand to finance targeted acquisitions and could borrow up to half of our shareholders' equity if required in order to make a major acquisition. There is no lack of opportunities, but one thing is certain: we will take all the time necessary to scrutinize the benefits and consequences of each one, both for Lectra and our shareholders.

André Harari. At the same time, we are determined to pursue our dividend-payment policy over the roadmap's period, with a payout ratio of around 40% of net income. Our aim is to achieve a steadily rising dividend per share.

You have both been closely associated with the management of Lectra for the past twenty-five years: how do you plan to be involved in the future?

André Harari. 2017 opens up a new era for the Company. Our 2017-2019 roadmap marks a first stage in Lectra's evolution over the next ten years. Since 1991, while Daniel has devoted most of his time to the operational side, I have personally made sure Lectra has in place the best practices in terms of corporate governance, financial transparency and organization, together with a clear vision, rock solid balance sheet, a strong corporate culture, a high degree of resilience and exacting standards. I have also ensured that Lectra's core values and uncompromising ethical standards have been upheld in the conduct of its business. The Board of Directors was strengthened in 2016 with the appointment of a fifth member, and by the designation of a Lead Director at the beginning of 2017. Our three independent Directors now are deeply familiar with the Company, and their extremely broad industrial, financial and international experience are a vital asset. Consequently, the Company stands ready for me to hand over the Chairmanship of the Board to Daniel at the expiration of my current term, in April 2020, by which moment I will have reached the mandatory age limit for the position of Chairman of the Board. At that time, or should I relinquish my position at an earlier date, the Board of Directors will, in principle, terminate the separation between the positions of Chairman on the one hand, and Chief Executive Officer on the other, reuniting them as was the case before 2002. Daniel would then be appointed Chairman and Chief Executive Officer, the position he held between 1991 and 2001.

Daniel Harari. I intend to lead Lectra for the next ten years and take it to a new dimension. The management team at headquarters and in the subsidiaries has been further strengthened over the past three years. The membership of the Executive Committee was increased to five in July, last year, with the appointment of Céline Choussy Bedouet, Chief Marketing and Communications Officer. Jérôme Viala, who has worked with me for twenty six years, was appointed Executive Vice President for the Group, on January 1, 2017, becoming number two on the Executive Committee. Finally, each of the members has been assigned new tasks aimed at the successful accomplishment of our roadmap for 2017-2019.

What are your objectives for 2017?

Daniel Harari. The Company entered 2017 with extremely strong operating and financial fundamentals. However, 2017 looks unpredictable once again. As in previous years, the main uncertainty concerns the level of orders for new systems and corresponding revenues. In these conditions, the Company is targeting 6% to 12% revenue growth and 7% to 15% growth in income from operations before non-recurring items, like-for-like.

"2017 opens up a new era for the Company. Our 2017-2019 strategic roadmap marks a first stage in Lectra's evolution over the next ten years."

André Harari

Shared conversations

Jérôme Viala, Céline Choussy Bedouet, Véronique Zoccoletto and Édouard Macquin, members of the Executive Committee, chaired by Daniel Harari, bring additional insight to the interview with André Harari and Daniel Harari on Lectra's 2016 financial results and business outlook.

André Harari. Our performance in 2016 was particularly satisfactory given the persistently difficult macroeconomic and geopolitical conditions throughout the year.

Jérôme Viala. We entered 2016 with even more solid operating fundamentals than in 2015 and an even stronger balance sheet. But the outlook for 2016 looked unpredictable once again, and several events continued to weigh on our customers' investment decisions. These included the US elections and their impact on other countries—Mexico notably—the political and economic situations in Brazil and Turkey, weak growth in Western Europe and terrorist attacks in a growing number of countries. Despite these difficult conditions, our financial results came in at the top of the range of expected revenues and income from

Jérôme Viala
Executive Vice President, Chief Financial Officer

Céline Choussy Bedouet
Chief Marketing and Communications Officer

Véronique Zoccoletto
Chief Transformation Officer

Édouard Macquin
Chief Sales Officer

operations that were communicated at the start of the year, after the acceleration of our R&D plan decided mid-year. They demonstrate once again the virtues of our business model, based on a high level of free cash flow generation and a structurally negative working capital requirement.

Édouard Macquin. Orders for new systems grew by 13% to €113.3 million, a very satisfactory performance, despite continuing hesitancy on the part of American businesses, for cyclical reasons mainly. Orders grew across all product lines and in all three main market sectors. We gained market share in Asia-Pacific, where orders were up 47%, whereas they were practically flat in 2015. We also scored some major business wins, in airbags especially, selling 10 *FocusQuantum* systems to leading manufacturers in 2016; in PLM with prestigious fashion brands in Italy, where we are the undisputed market leader; and in building partnerships with top global players. These successes are proof we have the right strategy and offer: orders for new systems were up 32%, at actual exchange rates, between 2012 and 2016.

Jérôme Viala. We have grown our revenues in all our markets over the period. At actual exchange rates, revenues from new systems rose 7% to €44.8 million in fashion and apparel, 60% to €50.1 million in automotive, and 96% to €11.4 million in furniture. Furniture is now clearly Lectra's third market sector. Geographically, total revenues rose 14% to €107.4 million in Europe, 37% to €68.9 million in the Americas, and 64% to €68.8 million in Asia-Pacific.

Daniel Harari. We have bolstered our technological advance, enhanced the expertise of our teams and the value of our offer, notably in cutting room automation.

Véronique Zoccoletto. Innovation is a daily passion for Lectra's teams. Innovation is what enables our teams to transform complex challenges into opportunities, increase our technological leadership and continuously reinvent our offer. The geographic proximity and reinforced collaboration between our marketing teams, 270 R&D engineers, and production and customer support teams is a genuine accelerator of innovation. Their close cooperation improves all our processes, combining to ensure customer satisfaction and the quality of our offer.

Céline Choussy Bedouet. Lectra is the sole player in this industry to invest so heavily and regularly in R&D, spending more than €100 million in the past five years, far outpacing its historic competitors. These investments have enriched Lectra's software offer for fashion and apparel with new versions of its flagship solutions *Kaledo, Modaris, Diamino* and *Lectra Fashion PLM,* yielding critical innovations in automated cutters. The *Vector* and *Versalis* ranges were entirely renewed in 2012, then extended, and Lectra has launched end-2015 its new generation of laser cutters for airbags, the *FocusQuantum.* Lectra's offer for the cutting room is unrivalled in today's marketplace.

André Harari. We have enhanced our capabilities in all areas and our assets are today stronger than ever.

Véronique Zoccoletto. Thanks to the success of the transformation plan launched at the end of 2011, our teams are stronger than ever. They combine customer business expertise and a command of the most advanced technologies. They are leveraging their broad experience to bring global and local projects to a successful conclusion, while respecting different cultures and consistent levels of performance. These are unrivalled assets in our industry, allowing us to accompany our customers' development strategies and help them meet tomorrow's challenges.

Jérôme Viala. In the same way, Lectra's Bordeaux-Cestas campus—emblematic of the Company's strategy and a showcase for its expertise—was extended and totally refurbished to better welcome customers from all over the world. The campus also creates a highly modern setting for Lectra's workforce, fostering creativity and the sharing of information and experience. To ramp up production capacity and achieve the highest performance standards, we have rethought and adapted our industrial facilities and global logistics platform. This program, rolled out between 2014 and 2017, represents a total budget of approximately €10 million. We have also expanded our global footprint by opening subsidiaries in two of the most dynamic Asian economies: in South Korea in 2014, and Vietnam in 2016. This international network of 33 subsidiaries is unmatched by any of our competitors.

Daniel Harari. China is accelerating its transition towards a growth model anchored in consumption, added-value and productivity, under the impetus of the government's Made in China 2025 initiative.

Édouard Macquin. This evolution will create new opportunities, as well as substantial challenges for both Chinese and non-Chinese companies. More and more apparel manufacturers are moving up the value chain and modernizing their plants to retain their dominant position on the global stage. By 2020, China is expected to account for nearly a third of light vehicles produced in the world, and there will still be enormous growth potential beyond. Chinese manufacturers' push into the premium car market will reverberate across the entire production chain, impacting global suppliers and national firms alike. Finally, the furniture market will grow in step with the rise of China's middle class, and furniture exports are expected to decline progressively as a proportion of China's total output.

Daniel Harari. The integration of new technologies will significantly enhance the value of our offer, bolstering our premium positioning and our competitive edge.

Véronique Zoccoletto. The digitalization of processes and objects, now connected, is set to have an even 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. Integrating these technologies into our offers will enable us to provide yet greater value to our customers.

Céline Choussy Bedouet. Starting in 2015 we have been developing new cloud services to complete our offer of automated cutters, as well as our collection and product design, development and management offer for fashion and apparel. These services will enable customers to optimize cutting room performance for each type of manufacturing and material; maximize cutting operations throughput by anticipating production orders very early in the process; reduce total costs and improve their processes; automate tasks still performed manually; promote collaboration between all of the teams involved in the process across a product's lifecycle; and reinforce their industrial integration with subcontractors. We plan to roll out our first cloud services starting in 2018.

Daniel Harari. Industry 4.0 presents an unprecedented opportunity for Lectra.

Édouard Macquin. 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 leaves more and more room for large scale personalized—and profitable—manufacturing, with greater quality and no added costs or delays. This shift will force all our customers to integrate modular solutions and connected, smart services. They will have to ramp up their transformation, adopting

the technologies and services shaping Industry 4.0.

Céline Choussy Bedouet. We are already an indispensable Industry 4.0 player in our market sectors. There are four reasons for this. Our teams' expert knowledge of their customers' business and their command of best practices in each industry is universally recognized. Our offers combine machines, software and services—a major asset to the Company as it supports its customers at increasingly strategic levels. With ten years' experience in the industrial Internet of Things, we are the only player in our industry to propose a complete high added-value offer, compatible with Industry 4.0 and critical to its deployment. Finally, we develop and program our own electronics for our cutters, enabling us to manage in real time information transmitted by the many hundreds of thousands of sensors installed in current generations of *Vector, Versalis* and *FocusQuantum* systems—in all, more than 3,000 machines are or can be connected across 2,000 production sites worldwide. This creates a high entry barrier for our competitors, still reliant on standard electronic boards.

André Harari. One of our five strategic aims is to progressively transform most of our revenues from new software licenses into recurring subscriptions by establishing a SaaS business model.

Véronique Zoccoletto. The SaaS business model is the answer to a 'servitization' strategy, where software is no longer sold in the form of a perpetual license but as a service, billed on a subscription or pay-per-use basis. SaaS will afford customers greater flexibility and control over costs. Our future SaaS offers will leverage cloud services, currently under development. In 2017 we will be testing these, working closely with pilot customers to learn more about the benefits of these revolutionary new services and accurately measure their impact for Lectra.

Jérôme Viala. They will account for a growing share of our revenues starting in 2018. We have yet to set a precise target as we lack hard data. But we do know the impact will be positive over the mid-term. The transformation of revenues from new software licenses —currently 9% of total revenues—will be progressive, because we will continue to sell most of our software in the form of perpetual licenses over the next three years, so as to give our customers time to adapt. At the same time, we will encourage our customers now under software evolution and online services' contracts, to progressively migrate to these higher value-added SaaS offers. Ultimately, this transformation will further boost software and recurring revenues, with no material impact on our cash position.

Assessment of the 2013-2016 strategic roadmap

Thanks to Lectra's 2013-2016 strategic roadmap the company has entirely transformed.
Lectra has enhanced capabilities, bolstered its technological advance and the value of its offer.
Across all market sectors and geographic markets where the company's competitiveness has increased, Lectra has forged strong relationships with prestigious customers, supporting them on their path towards operational excellence.
Lectra has raised its image and profile.
Finally, the company's financial and operational fundamentals have become stronger than ever.

Fundamental advances in technology

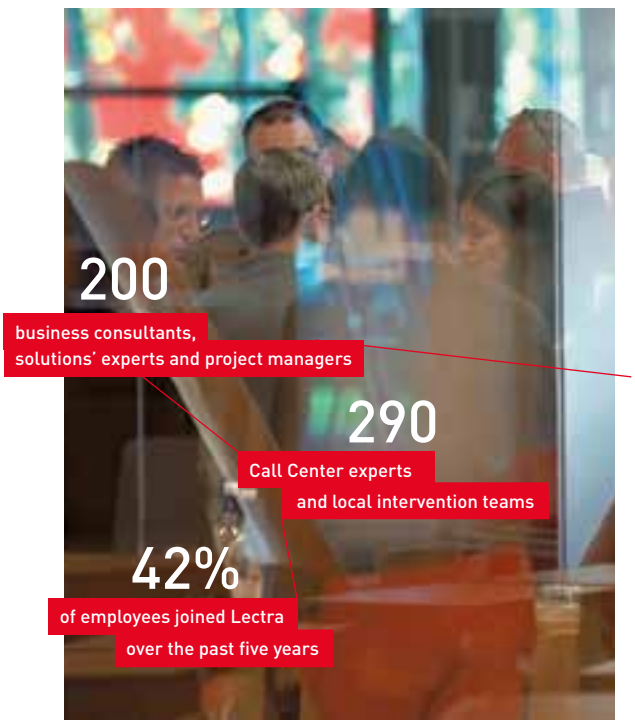
A pioneer in the industrial Internet of Things since 2007, Lectra has made the synergy between machines, software and services a reality, notably by leveraging proprietary built-in electronics. Steadfast investments in R&D have enabled Lectra to continually reinforce its technological advance and the value of its cutting room offer, which is specialized by market sector and today is unrivalled. The company has also launched major new versions of its flagship software solutions for the fashion and apparel industry. These are supreme sources of strength to support its customers at increasingly strategic levels.

270
R&D engineers end-2016

9%
Share of revenues invested in R&D over the past ten years

SUSTAINED INVESTMENTS IN R&D

€189 million
Cumulated investments in R&D over the past ten years



Reinforced teams' expertise

At the heart of Lectra's value proposition are the teams' business expertise and their command of best practices in each industry. Launched end-2011 and completed end-2015, the transformation plan and €50 million in investments for the future program served to extensively renew and increase Lectra's workforce. Training was also intensified. Resources were reallocated to the most strategic activities and to the most promising market sectors and geographic markets.

3

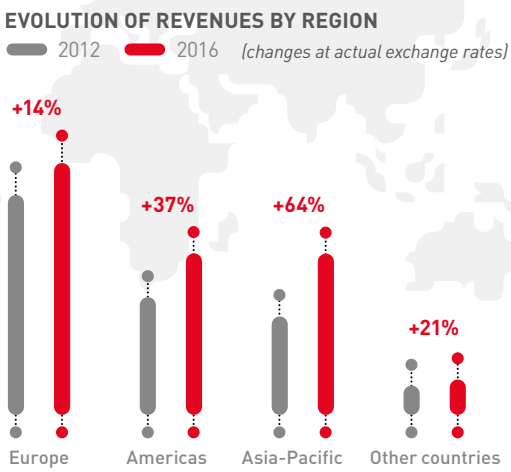
A total rethink for Lectra's campus

Lectra's industrial *savoir-faire* is a key source of strength. The company has extended and totally refurbished the Bordeaux-Cestas campus. The industrial facilities and global logistics platform have been rethought in order to ramp up production capacity and to achieve the highest performance standards. Lean manufacturing methods have reduced overall costs for manufacturing machines and have also improved the quality of production processes. The close cooperation between teams working in R&D, in the principal international Call Centers and in production is a real accelerator for innovation at Lectra.

4

An expanded global footprint

Lectra has strengthened its global presence by opening subsidiaries in two of the most dynamic Asian economies: in South Korea in 2014, and Vietnam in 2016. Lectra's international network of 33 subsidiaries, unmatched by any of its competitors, enables the company to deliver its value proposition across the world, adapting to each local context. Lectra's teams are the partners of choice for major brands and multinational manufacturing corporations, accompanying them wherever they are located, to address the challenges of a globalized economy.

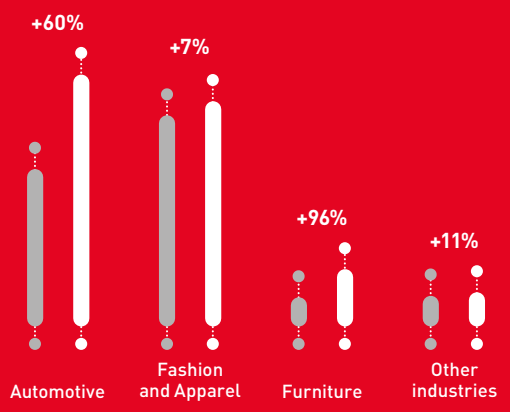


Increased competitiveness in promising markets

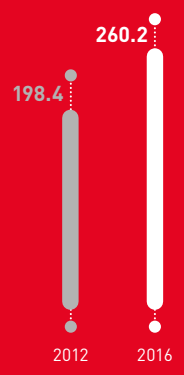
Today, Lectra is firmly present in three promising and dynamic markets. Lectra is a leader in automotive, and in fashion and apparel, and is rapidly growing in furniture. The company continues to increase market share, while maintaining a premium position and targeting as a priority the industries' leading players. Highly differentiated, the decision to develop dedicated solutions for each market, leveraged by specialized teams, is a major strength for Lectra.

EVOLUTION OF REVENUES FROM NEW SYSTEMS SALES BY MARKET SECTOR

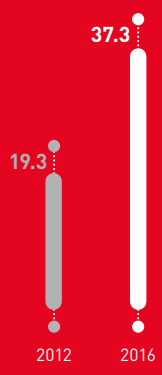
2012 2016 *(changes at actual exchange rates)*



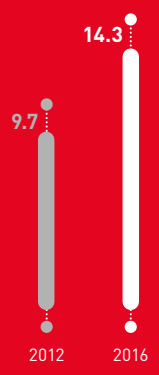
REVENUES
(in millions of euros)



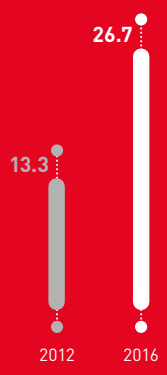
INCOME FROM OPERATIONS
(in millions of euros)



OPERATING MARGIN
(in %)



NET INCOME
(in millions of euros)



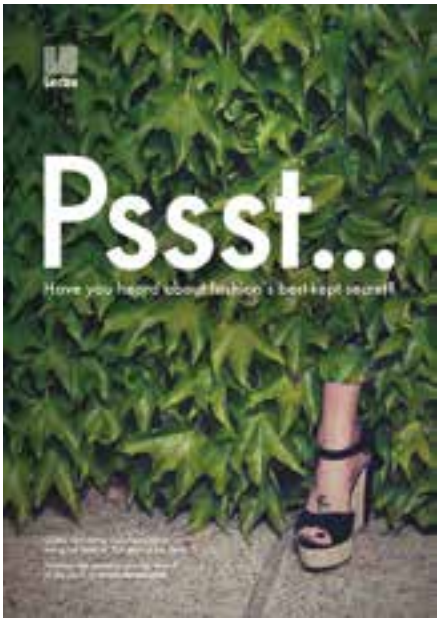
Record financial results

The strong dynamic in 2016 demonstrated the ability of Lectra's business model to accelerate organic growth and to strengthen profitability, despite macroeconomic uncertainties. Lectra's balance sheet is stronger than ever. Thanks to a cumulative free cash flow of €70.8 million over the 2013-2016 period, net cash rose to €75.7 million after payment of €29.9 million in aggregate dividends in respect of fiscal years 2012 to 2015. The company has had no financial debts since March 2015 and shareholders' equity has more than doubled in four years, to €132.6 million on December 31, 2016. These results, associated with the success of Lectra's €50 million investments for the future program, create a solid foundation for building the company's next roadmap.

Reinforcing Lectra's global recognition

Successful marketing campaigns

In the furniture industry, consumers are demanding more choice, more personalization, and quality as well as quicker delivery times, and lower prices. In order to preserve margins, manufacturers require flexible and innovative solutions and production processes. But which ones? makeitwith.lectra.com



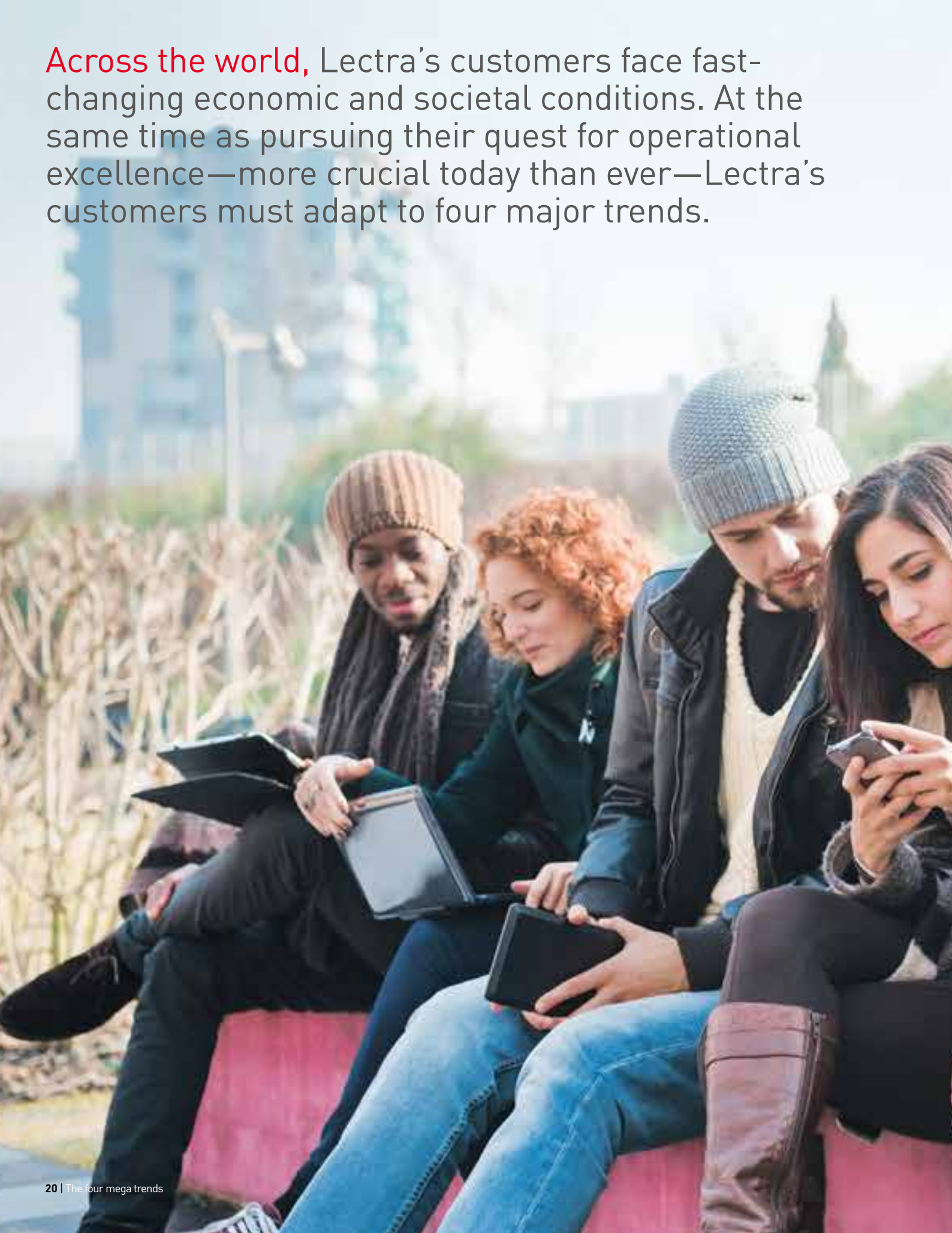
How to create collections that consumers want to buy, and evaluate if they are commercially viable? How to commercialize collections quickly? How can quality be balanced with using materials in the most optimized way? This is the fashion industry's best kept secret: lectrafashionplm.lectra.com/fashionsbestkeptsecret

Rapidly growing digital presence

Lectra's digital audience continues to grow, positioning the Group as a thought-leader and trusted partner. Until now in French and English, Lectra.com is available today in six languages. The Chinese version is designed for the local market and is optimized for mobile phone use, fundamental for China. On global social media sites, including in China, Lectra communicates weekly with over 30,000 customers, journalists, students and employees, bringing the company closer to these different communities. Finally, The Hive, Lectra's new blog confirms the Group's role as a thought-leader, with editorial and video content that addresses the trends and challenges within its different markets.

Staying competitive and carving a position in the value chain means car seats' and interiors' manufacturers must clearly demonstrate the advantages they bring to automakers in the long term. How? Find the answers on: demandmore.lectra.com

Across the world, Lectra's customers face fast-changing economic and societal conditions. At the same time as pursuing their quest for operational excellence—more crucial today than ever—Lectra's customers must adapt to four major trends.



1 MILLENNIALS

Brought up in a digital world, this generation represents two billion individuals. Born between 1980 and 2000, the Millennials are shaking up rules, behavior, needs and demands in terms of deliveries, quality, patterns of consumption, product personalization and respect for the environment.

2 DIGITALIZATION

Made possible by an entire ecosystem of new technologies, the digitalization of processes and objects is set to have a greater impact on organizations than the Internet. The process of analyzing the data generated—big data—will expand the range of possibilities, from improving operations to building new business models.

3 INDUSTRY 4.0

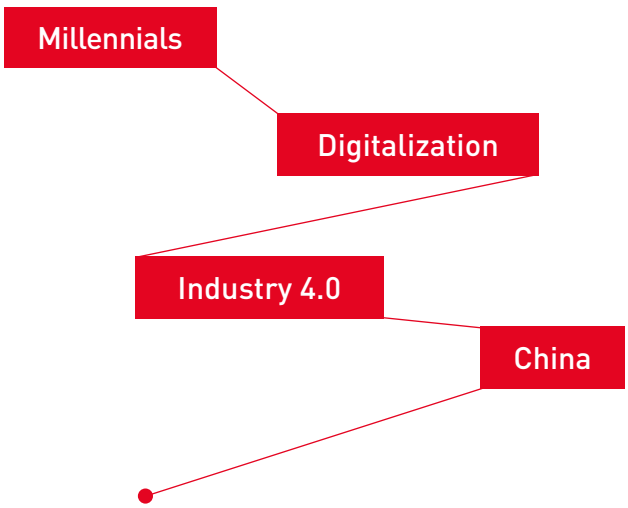
This concept, spearheading today's fourth industrial revolution, is founded on the digitalization of industrial processes, from design to production, and the connection in real time between participants, objects and production lines. Industry 4.0 is redefining how factories are organized; smart, they are increasingly flexible while making better use of available resources.

4 CHINA

The country is accelerating its transition towards a growth model firmly anchored in consumption, added-value and the productivity of its factories, with the government propelling them towards full modernization. This evolution will create new opportunities but also major challenges for both Chinese and non-Chinese companies.


江蘇陽光集團公司
陶瓷
精品商場
SHANGHAI PORCELAIN EXPO
珍珠城
PEARLS CITY
工艺礼品
ART & CRAFTS
新世界銀樓
New World Jewelers
KFC
B1
4~5F
Porcelain
新世界銀樓
ME&CITY

New strategic roadmap for 2017-2019



A long-term vision

Continuing its focus on the long-term, the new 2017-2019 roadmap is the first step in Lectra's development plans for the coming decade.
Millennials shaking up rules, the digitalization of businesses, the emergence of Industry 4.0, and China's evolving economy are four major emerging trends, already perceptible and expected to be felt with growing strength, generating many challenges for the fashion and apparel, automotive and furniture industries.

In order to effectively respond to changing demands and to bolster their competitive position, businesses need to accelerate their implementation of the vital technologies required to achieve their objectives.
While controlling costs, they need to improve flexibility and ensure rapid responses, to boost efficiency across processes, to guarantee product quality and ensure shorter time-to-market for products.

Lectra, an indispensable player in Industry 4.0

Such necessities require businesses and practices to be more collaborative, agile and efficient. These requirements are converging towards the major principles of Industry 4.0, which, in particular, enable businesses to shift from mass production to profitable, large-scale personalized production. Factories are at the heart of the value chain, propelling a new digitalized lifecycle for products. This shift will force all businesses to integrate smart, connected solutions and services, an essential condition for continuing competitiveness in the digital age. For Lectra, the ability to support customers as they face these key challenges is encapsulated in one concept: Industry 4.0. Selling software as if it were a service —SaaS—, reinforced by cloud technology, is opening up new horizons for innovation. Industry 4.0 is an unprecedented opportunity for Lectra.

Developing the business model for profitable, long-term growth

The 2017-2019 strategic roadmap was framed to enable Lectra to consolidate its global leadership within this new context and achieve sustained growth, while maintaining short-term profitability and continuing to focus activities on its main market sectors: fashion and apparel, automotive, and furniture.

Five strategic objectives

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[1]

(1) Other than potential acquisitions whose scale might require additional financing.

Five growth accelerators

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

Three financial targets

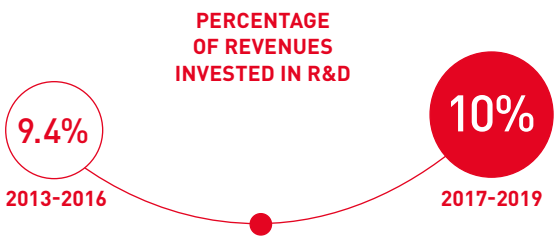
6% to 12%
Annual organic revenue growth

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

80+%
Percentage of annual fixed overhead costs covered by gross profit on recurring revenues

Based on like-for-like comparisons. These objectives will be adjusted if the company executes one or more targeted acquisitions over the period.

Increased investment in design and development of Lectra's offers



Lectra believes it has the necessary resources to achieve its growth potential. The company will continue to invest actively in innovation to constantly reinforce its competitive leadership and its value proposition by increasing the share of revenues dedicated to R&D to 10% for the period from 2017 to 2019—a rise of about 50% of the amount of R&D investments in 2019 compared to 2016.

More than 40 years of expertise for the benefit of customers

FASHION AND APPAREL

AUTOMOTIVE

FURNITURE

OTHER INDUSTRIES

Prestigious references in over 100 countries

ABERCROMBIE & FITCH
—
ADIENT
—
AIRBUS GROUP
—
ARMANI
—
ASHLEY FURNITURE
—
ATL
—
AUTOLIV
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B&B ITALIA
—
BELL HELICOPTER
—
BERTRANDT SAS
—
BRIONI
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BRUNSWICK
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BUGATTI
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BURBERRY
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CALVIN KLEIN
—
CALZEDONIA
—
CHANTELLE
—
COINDU
—
COMPAGNIE MAURICIENNE DE TEXTILE
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DANI S.P.A
—
DECATHLON
—
DEVANLAY-LACOSTE
—
DFM
—
DIESEL
—
DIM BRANDED APPAREL
—
DIOR
—
DOLCE & GABBANA
—
DRÄEXLMAIER
—
DUAL
—
DUVIVIER
—
ECA
—
EKORNES
—
ERMENEGILDO ZEGNA
—
EUROLINE
—
FAST RETAILING
—
FAURECIA
—
FRUIT OF THE LOOM
—
GALERIES LAFAYETTE
—
GKN AEROSPACE
—
GLOBAL SAFETY TEXTILES
—
GODFREY SYRETT
—
GRUPO KALTEX
—
GRUPPO MASTROTTO
—
GUCCI
—
HANSOLL TEXTILE
—
H&M
—
HERMÈS
—
HMT (XIAMEN) NEW TECHNICAL MATERIALS
—
IMPERIAL
—
JACK VICTOR
—
JC PENNEY
—
KATZKIN
—
KEY SAFETY SYSTEMS
—
KOLON INDUSTRIES
—

KOOKAÏ
—
KUANGDA
—
KUKA
—
LA MODA
—
LA PERLA
—
LAFUMA
—
LEAR
—
LES ENPHANTS
—
LISE CHARMEL
—
LORO PIANA
—
LOUIS VUITTON
—
LUNENDER
—
MAGNA
—
MALWEE
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MARIO LEVI
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MANIFORM
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MARKS & SPENCER
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MIROGLIO
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MONCLER
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MULBERRY
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PEACEBIRD
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PETIT BATEAU
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POLIPOL
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POLTRONA FRAU
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PRADA
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PVH
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RED COLLAR
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RUYI
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SMITH BROTHERS
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STARR AIRCRAFT
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ST JOHN
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SUMISHO AIRBAG SYSTEMS
—
TACHI-S
—
TAL
—
TATA ADVANCED MATERIALS
—
TESCO
—
TOYOTA BOSHOKU
—
TRAYTON
—
UNDER ARMOUR
—
VAN DE VELDE
—
VERSACE
—
WACOAL
—
WILLIAMSON-DICKIE MFG. CO.
—
YVES SAINT LAURENT
—
ZAMASPORT
—

A privileged partner creating value for customers.
For over forty years, Lectra has supported its customers as they strive towards operational excellence. The expertise of Lectra's teams in customers' businesses and the company's premium services, together with advanced technologies and continual investment in innovation, have conferred on Lectra a driving role in customers' growth strategies. In a fast-evolving environment, Lectra leverages its strong ability to anticipate change to understand the challenges customers will face tomorrow and help them to prepare for these challenges today. Millennials, digitalization, Industry 4.0, China: Lectra is the indispensable partner for transforming risks into opportunities.

Fashion and Apparel

Fashion and apparel reinvent themselves

If the fashion and apparel industry were a country, its GDP value would be equivalent to the seventh largest economy in the world. China, the United States and Europe are still leading in sales, but consumption continues to rise in developing countries, with an impact in terms of styles, size and fit.
In terms of volume, over half of all garments sold in 2016 were in the Asia-Pacific region. This area is set to see sales rise to $491 billion in 2016 and $606 billion by 2020, representing 37% of the global market's value. Between 2010 and 2020, sales are expected to rise by 85% in Asia-Pacific, 31% in North America, and 10% in Western Europe. Segments showing the strongest growth will be sportswear, fast fashion and affordable luxury. Global production should reach over 129 billion units by 2018, reflecting constant growth in demand.

How fashion is designed, developed, produced and consumed continues to evolve. From now on, the consumer is an integral part of the value chain within this profoundly changing industry.
In order to differentiate and improve profitability, brands are focusing on creativity, fit and the accelerated renewal of collections. Their success is rooted in data exploitation and analysis.
Manufacturers are increasingly expanding their activities, engaging in the personalization of garments or developing their own brands. With a keen eye on the objectives for their margins, they are streamlining processes and improving cost control. Like manufacturers, more and more retailers are developing their own brands.

And tomorrow?

Due to a soaring domestic market, a rise in production costs, and the Made in China 2025 initiative, China has gone beyond its role as the world's factory, accelerating the country's industrial upscaling. While western brands still turn to China for their supplies, near-sourcing is grabbing an increasing share. Chinese apparel giants are relocating their production to low-cost regions—continental China, South-East Asia, Africa—and developing their own brands. Not only are Chinese consumers buying more, they are increasingly loyal to brands. In terms of quality, these consumers are more demanding and even favor personalization.
Around the world, the Millennial generation must be taken into account. Growing up in the digital and social media age, they have expectations—quality, price, personalization, social and environmental responsibility, delivery times—that are forcing supply chains to become more agile.
With rising market pressures, notably from the growth in Internet sales, companies must transform themselves to directly engage in the digital era.
Collaborative platforms have become a necessity. By enhancing teamwork with both internal and external partners, these platforms facilitate and accelerate product design and development. A rise in labor costs, combined with trends like customized garments, mean automated production lines are essential. Smart machines not only help manufacturers to lock into place uninterrupted production, with few operators, they can also take into account individual consumer preferences.
Crucially, data flows and analyses at the heart of Industry 4.0 factories ensure production is tightly integrated along the entire value chain.

106 billion

Number of garments sold in 2016

$1,323 billion

Global garment sales in 2016

+20%

Expected growth in global garment sales from 2016 to 2020, to reach $1,585 billion

"Made in China 2025 provides the textile and garment manufacturing industry with guidance on how to upgrade itself using smart technology and automation. In the last few years, Ruyi has been working hard to adhere to the Made in China 2025 guidelines. At present, quality and efficiency are our top priorities. Ruyi and Lectra began working together in early 2014, we set our objectives and put together a project team. Over the last two to three years we've transformed Ruyi's Tai'an site from a traditional garment manufacturing plant to a manufacturing center empowered by technology, customization and smart manufacturing."

Qiu Mu Ke
President, Tai'an Ruyi Technology Fashion Industry

RUYI

Drafted by the Chinese Ministry of Industry and Information Technology (MIIT) with the aim to modernize the country's industry, the Made in China 2025 initiative is encouraging Chinese companies towards adopting innovative and high-performing solutions. This initiative is fast propelling the Chinese economy towards smart, value-added manufacturing. For the fashion and apparel industry, the plan is inciting companies that embrace mass customization and made-to-measure—a market segment enjoying strong growth in China—to equip themselves with the most advanced digital technologies, using data integrated across the entire value chain.

Founded in 1972, and an early adopter of innovative technologies, China's **Ruyi** Group has one of the most comprehensive supply chains in the world, from textile to garment manufacturing. The group has 30,000 employees, and in 2016 recorded €7.6 billion in revenues, while total volume of imports and exports exceeded $3 billion in 2015.

Watch the video on **lectra.com**

GALERIES LAFAYETTE

Galeries Lafayette aims to increase their own brands from 6% of total revenues today to 10% by 2020. In December 2016, they launched the first collection for their new own brand. With the aim to affirm a style identity founded on simple, expertly-designed shapes—the effortless chic of the French—Galeries Lafayette's team looked for a solution most suited to increase the performance of product design and lifecycle management processes.

"Galeries Lafayette aims to enhance its ability to develop its own brands. Lectra's PLM solution is the most suited for improving the workflow and facilitating cooperation between the different teams involved in the product development process."

Delphine Chevalier
Purchasing Director, private brands, Galeries Lafayette

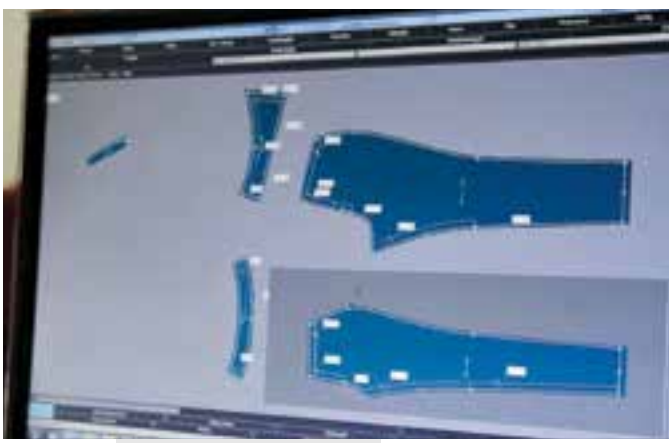
A leading city-center fashion retailer with proven expertise, the French **Galeries Lafayette** group has 120 years of history in commerce and retail. International recognition for this iconic group embodying the French *art de vivre* continues to grow. With 15,000 collaborators, sales for the group reached €3.8 billion in 2016.

"We need to react quickly to market trends, so our lead times are short. A speedy product development and production process is crucial if we're going to get our designs into stores on time. At the same time, we need to make sure our operation is as cost-efficient as possible, without sacrificing the premium nature of our offer."

Giancarlo Bedin
Chief Operating Officer,
La Moda

LA MODA

La Moda grew so quickly that the company developed without putting proper processes into place. La Moda needed to update its cutting room to keep up with the increase in business. It needed to keep production fast and cost-effective, while maintaining the high quality standards and originality in design that set it apart from other brands in the market.



Watch the video on **lectra.com**

Founded in 1986, Brazilian company **La Moda** creates and produces high-end women's clothing for its brands, Lança Perfume and My Favorite Things. Its factory produces two million articles a year for its nine collections, which each include over 1,000 references. La Moda employs 750 people and in 2016 revenues reached $95 million.

UNDER ARMOUR

US-based global performance brand Under Armour inaugurated the UA Lighthouse, a new facility for design and manufacturing in Baltimore, United States, on June 28, 2016. The company chose Lectra as their exclusive partner for the cutting room at the UA Lighthouse. By adopting the most advanced technology, this incubator aims to promote manufacturing best practices and to develop efficient production methods.

Founded in 1996 in the United States, **Under Armour** has revolutionized performance footwear, apparel and equipment. Today the company employs 11,000 people and posted $4.8 billion in revenues in 2016.

Automotive

On the brink of a revolution

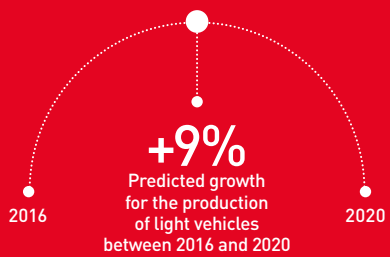
After a slow-down in car sales in 2015, China enjoyed a rebound in 2016. By 2020, China—today the number one global manufacturer of automobiles—will account for nearly a third of light vehicles produced in the world, while those from other emerging countries will represent a fifth. Benefitting from strong domestic demand, the American industry has restructured and gained in performance, while Europe continues to face overcapacity in production. On the eve of a revolution in self-driving cars, the automobile industry continues its quest for operational excellence, as well as adapting to consumer expectations in terms of style, price, connectivity, ecology and security. Interiors are still among top criteria when consumers choose a vehicle. Automakers are multiplying models with a focus on innovation, personalization and passenger experience. Synonymous with comfort and prestige, leather is increasingly used in car interiors. Demand for leather interiors is witnessing strong growth in all regions: +31% in Europe, +29% in North America and +24% in China between 2013 and 2017.

The airbag sector is benefitting the world over from legislation and consumer expectations that both favor security. Depending on the country, new car models include from two to 14 airbags. Not only are they increasing in number, but also in shape and size. Manufacturers need to put in place production that is beyond reproach: zero defects are essential. A 13% growth in the number of airbags produced is expected over the next two years, representing +25 million airbags a year.

And tomorrow?

The automobile industry is without doubt one of the most advanced industries in terms of factories of the future—and it will remain thus. In order to confront specific challenges in an increasingly complex context, automakers and automotive equipment suppliers—who are pioneers in the automation of processes—are accelerating the use of 4.0 technologies. Now that processes have been individually digitalized, today these processes need to communicate with each other. As a result, 4.0 technologies facilitate communication between elements in their supply chains: horizontally between products, machines and production sites, and vertically from the executive board to the showroom. Influenced by the Millennials, the way cars are used is undergoing a full transformation. Why own a vehicle when you can share one? Used more often, cars must be increasingly resistant to wear and tear. Millennials also crave heightened personalization and innovative designs rolled out onto the market more frequently. In order to offer Millennials the digital experience they expect, and serving as a major differentiating factor, more technology is integrated into interiors' designs. While tactile and intelligent materials lighten the weight of a vehicle. In China, a true car culture has arisen. Now the number one consumer of cars, this country has enormous potential for growth. In particular, the premium segment, in China is set to overtake the United States by 2020. This will have an impact all along the industry's production chain. Leather is much in demand. It coexists with substitute materials, like vinyl, which are more uniform and easier to use. Local automakers and automotive equipment suppliers will, along with the major global groups present in China, accrue market share and move towards a high-end offer.

Number of light vehicles produced in 2016



Predicted growth for the production of light vehicles between 2016 and 2020

Number of airbags manufactured in 2016

"It is about meeting the customers' changing requirements, both in terms of styling and volume. The die cutters we once used would never have allowed us to keep up with OEMs' new demands the way our new digitalized solutions do."

Alberto Silvagni
Automotive General Manager,
Gruppo Mastrotto

GRUPPO MASTROTTO

Consumers expect a wider, and personalized, choice of leather interiors. The supply chain is growing in complexity because of the increasing number of variations and rapid changes in products. Digitalizing the cutting room and streamlining processes provide tanners with greater flexibility and agility. More responsive, they can efficiently respond to evolving demands from consumers.

Founded in 1958, Italy's **Gruppo Mastrotto** is the number one European producer of leather. With 20 factories in Italy, Brazil, Mexico, Indonesia and Tunisia, its logistics' hub with just-in-time delivery for hides is the biggest in the world. The company employs 2,300 people. In 2015, the company's turnover exceeded €460 million.

FAURECIA

With Industry 4.0 in mind, Faurecia is betting on advanced manufacturing for its operations. In December 2016, its Automotive Seating group renewed a global agreement that makes Lectra the strategic supplier of high-ply fabric cutting solutions to Faurecia. For the manufacturer, one of the key benefits of this long-term partnership is standardizing the cutting equipment to the highest performance system available on the market.

Faurecia Automotive Seating is a business unit of **Faurecia,** one of the world's largest automotive equipment suppliers. With a turnover of €18.7 billion in 2016, the French group employs 103,000 people in 34 countries at 330 sites and 30 R&D centers.

"More than ever, we have key challenges in terms of flexibility, agility and productivity—producing more while reducing costs. Our fabric and leather cutting processes have become strategic in reaching these goals. Faurecia's 'digital enterprise' project is set to transform working practices in virtually every aspect of our organization, and the cutting room, with smart automation and predictive maintenance, is no exception."

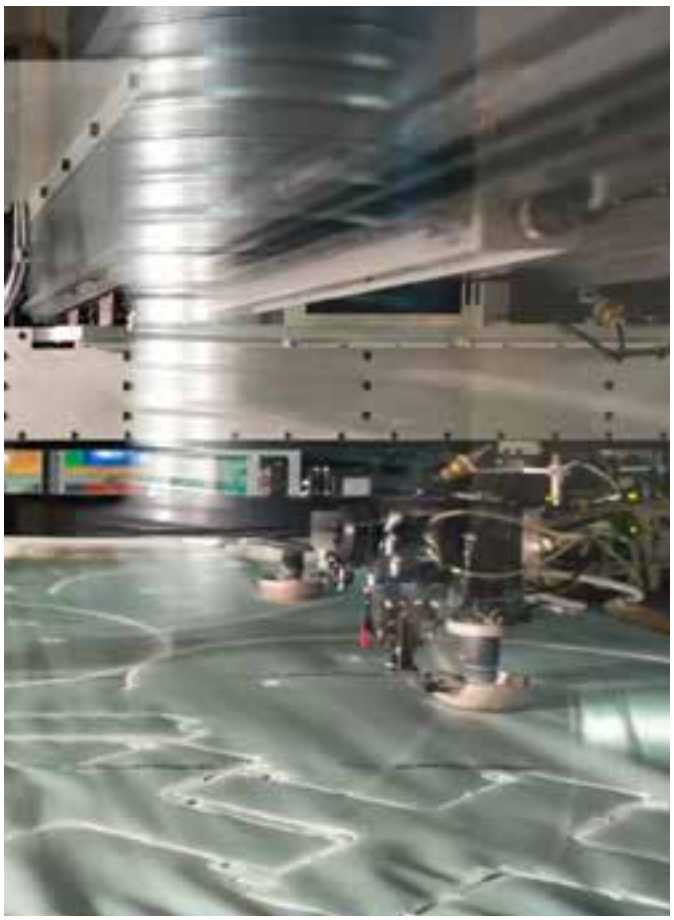
Jean-Luc Tété
Vice-President Comfort & Trim division, Faurecia Automotive Seating

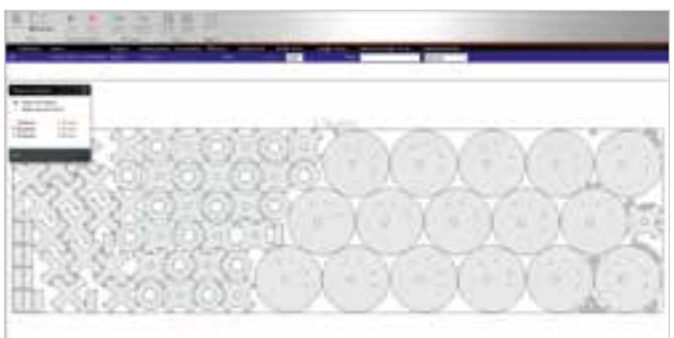
FocusQuantum: A technological revolution

For the first time on the airbag market, a comprehensive, connected solution, with a laser cutter, a dedicated software suite and high added-value services is offered to manufacturers of automotive safety systems. Leveraging Lectra's power to innovate and thirty years of experience in laser cutting for airbags, *FocusQuantum* was developed in tight collaboration with leaders in the industry. With this solution providing zero defects in production, productivity is twice as high as the previous generation of cutters. Each machine can cut up to eight million airbags a year.

An immediate commercial success

One year after its launch, a large number of airbag manufacturers have already adopted *FocusQuantum Flat* and *OPW* solutions, with certain customers ordering another new cutter as soon as the first one is installed. Global Safety Textiles (GST, Germany), HMT (China), Dual and Kolon Industries (South Korea), Key Safety Systems (KSS, United States) and Sumisho Airbag Systems (Japan) have acquired one, or several, *FocusQuantum* in 2016. Lectra, who already holds two thirds of the market for airbag cutters, continues to carve a leading position.





Thanks to ***FocusQuantum's*** integrated software suite, manufacturers simulate the consumption of materials and the cutting time to respond more rapidly and more precisely to requests for quotation.

Furniture

A race against the clock

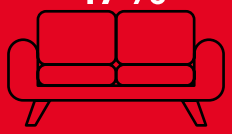
In the last five years, upholstered furniture production has risen by 24% across the world and by 67% in China, where 47% of all upholstered furniture is made today. In Europe, production has shifted towards Poland and Romania, and is enjoying a new dynamic in North America. Looking towards 2017, consumption is clearly on the rise for the furniture industry, but it will be localized: +6% in China and India; +3% in the United States, Poland and the rest of the world; less than 1% in the rest of Europe.

Upholstered furniture manufacturers are engaged in a race against the clock. Slow to embrace modernization, today they are aware they must automate production to boost flexibility, and take manufacturing into account at the very start of the design process to control costs and delivery times. In order to differentiate and to entice consumers, many manufacturers are reinforcing design activities. Their objective is to offer original, customizable models in a wide range of materials. Environmental criteria are also increasingly taken into account. Adopting new technology—from design-to-cost solutions to automated cutting—varies greatly between regions. In North America, production—already automated—is entering a new phase of modernization; in Eastern Europe, the key challenge is to cope with the lack of a qualified workforce; and in China, profitability is propelling the shift from craftsmanship to industrial production thanks to automation.

And tomorrow?

The Millennials are forging change for the furniture industry. They represent a massive market: they move frequently, they change furniture when they move, and they want furniture to reflect their personality. Manufacturers are inspired by how Millennials are living. They are adapting their offer for smaller accommodation, for example, with compact and modular furniture. Millennials, not wanting to wait months for furniture they've ordered, are also driving the trend towards 'fast furniture'. The pace of collections and delivery times is accelerating, shaking up traditional supply chains. Manufacturers are looking for technologies that help them to produce increasingly attractive models, faster and in a profitable way. Even if Industry 4.0 factories are quite far on the horizon for the majority of furniture manufacturers, automated production lines will improve efficiency and productivity. The increasing potential of previously unprofitable industrial models, such as mass customization, is a further result of modernizing technology.
It enables companies to manage a growing choice of styles, materials and configurations. China exports 40% of production and the country continues to gain market share. However, longer delivery times are not in the country's favor and its manufacturers' grip on the global supply chain is weakening. By contrast, the domestic market, growing to the rhythm of the burgeoning Chinese middle-class, remains private turf.

47%



Share of global upholstered furniture manufactured in Asia-Pacific region

$68 billion

Global upholstered furniture production

Expected growth for upholstered furniture sales in 2017

KUKA

In order to alleviate the lack of skilled labor, to differentiate themselves by using automated manufacturing and to satisfy increasingly demanding Chinese consumers, Kuka turned to Lectra's expertise, technology and support. The company transformed its design and product development processes with *DesignConcept 3D* and automated leather cutting with *Versalis.*

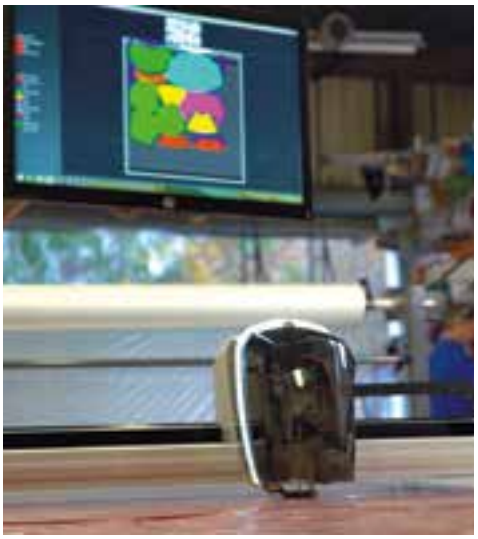
"Kuka is seeking to explore transformation through process integration, digitization and automation. By leveraging Lectra's experience and best practices in the CAD/CAM field, we will be able to create a complete solution for the upholstered furniture industry with Lectra."

Li Donglai
President, Kuka

As a leading brand in China's furniture industry, **Kuka** designs and manufactures quality upholstered furniture in leather and fabric, and exports to over 120 countries. Kuka has over 2,500 stores in China, from where the company distributes its own brands.

GODFREY SYRETT

B2B furniture manufacturer Godfrey Syrett aims to almost double its turnover by 2020. Its design-led projects strive to make upholstered products much more modular and better adapted to the way people work nowadays with computers.
Thanks to automated cutting equipment and processes, the British company has increased production by 70% compared to manual cutting, saved £150,000 a year by using fabric more efficiently, reduced time to market and improved product quality.



Founded in 1947, UK-based **Godfrey Syrett** provides high-quality, well-designed and stylish furniture solutions for the educational, healthcare and commercial sectors throughout Europe. The company recently announced its plan to become a £40 million business by 2020, from £25 million in 2015.

"As the pressure to deliver on time increases, the Lectra fabric-cutting machine is critical to ensure that fabric is cut on time and efficiently. Godfrey Syrett sees its future with Lectra as a key partnership."

David Hall
Sales and Marketing Director,
Godfrey Syrett

Watch the video on **lectra.com**

Other industries

Innovation extended to other industries

Many other industrial sectors use flexible materials. Each material has specific challenges. Leather is one of the most difficult to manipulate. Technical textiles (for example, PVC, insulating foam, coated fabric) require special treatment adapted to their thickness, weight and composition. Composite materials (for example, fiber glass, carbon fiber) prohibit any defects. They have many applications, from plane and boat seats and interiors, helicopter and wind turbine blades, to parachutes, sports' equipment and the covers of mobile telephones. Companies in these sectors are deeply interested in innovative solutions that have been adopted by other industries, such as automotive and furniture. They are especially looking to optimize the use of expensive materials, meant to last for decades. However, implementing just-in-time production should maintain a high level of performance, quality, traceability and compliance to safety regulations. As with all of Lectra's other markets, these sectors are influenced by major trends dovetailing from the Millennials, the digitalization of companies, Industry 4.0 and China. Often on the cutting edge of technology, these sectors should transform themselves at a steady pace.

Designing, developing and managing collections

Stimulating creativity, cutting lead times to market and controlling costs, Lectra's software helps fashion and apparel businesses to remain competitive by controlling each stage, from design to product development and the manufacturing of garments. Lectra's solutions facilitate the collaboration between teams and suppliers, enabling them to master collection calendars and resources. They enable players in fashion to meet increasingly complex challenges—constant demand for innovations, customized offers, the globalization of markets, changes in costs, omni-channel distribution—across the entire value chain.

1

2

3

1. Designed for brands, retailers and manufacturers, ***Lectra Fashion PLM*** increases efficiency across the entire process to design, develop and manage collections. Since 2016, the scope of this innovative product lifecycle management solution spans pre-production stages. Advances made in key functionalities, such as material forecasting, earned Lectra the highest score in the 2016 WhichPLM benchmark.

2. ***Kaledo*** enables designers to virtually create and visualize garments and textiles in real time.

3. ***Modaris,*** Lectra's flagship solution for fashion and apparel, was designed to unleash creativity and facilitate collaboration between design and product development teams. This solution facilitates data exchange along increasingly complex supply chains, particularly when teams work away from production sites.

Fabric cutting room

Lectra is paving the way in the field of automated fabric cutting with a technology synonymous with operational excellence and an unmatched performance from small series to mass production. Smart and connected, Lectra's solutions deliver an adapted response to the most rigorous demands for each type of production using fabric, technical textiles or composite materials.

1

2

1. ***Diamino,*** Lectra's marker-making solution, extends the possibilities of automatic marker-making. The solution accelerates the product development process, reduces costs by optimizing fabric use, and allows for better quality products.

2-3. Thanks to high precision technology, ***Vector*** cuts pieces perfectly, increases production capacity and optimizes costs. Manufacturers can also significantly boost productivity thanks to predictive maintenance and exclusive mechanisms, such as Eclipse for uninterrupted automated cutting.

3

Airbag cutting room

***FocusQuantum* is a major step forward for the demanding airbag sector.** Lectra conceived the range to help flat and one–piece woven (OPW) airbag manufacturers to deliver high–quality products, at the right time and the right price to automakers.

5

4-5. Value-added services—the solution's implementation, change management and providing support—guarantee operational excellence for the ***FocusQuantum*** cutting room.

4

Leather cutting room

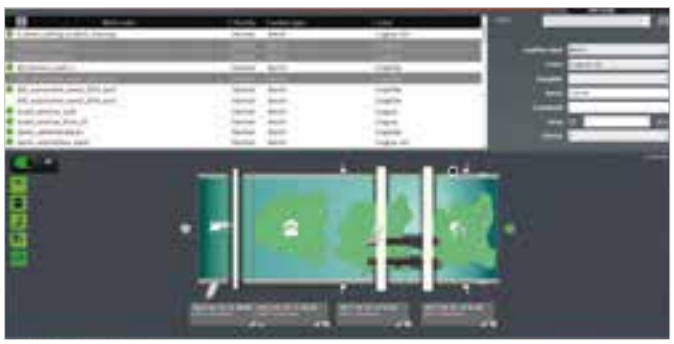
Lectra has revolutionized the leather cutting room. Adapted perfectly to lean strategies carried out by many manufacturers, Lectra's solutions –cutting machines, software and dedicated consulting services optimize design, product development and manufacturing processes. As a result, Lectra's customers increase their profitability and competitiveness.

1. Smart and connected technologies integrated into ***Versalis*** enable Lectra's customers to benefit from predictive maintenance, indispensable to maximize uptime for machines and the performance of their cutting room. These technologies also provide data to Lectra's consultants which, once analyzed, become the foundation for a detailed diagnostic to reach, and maintain, operational excellence.

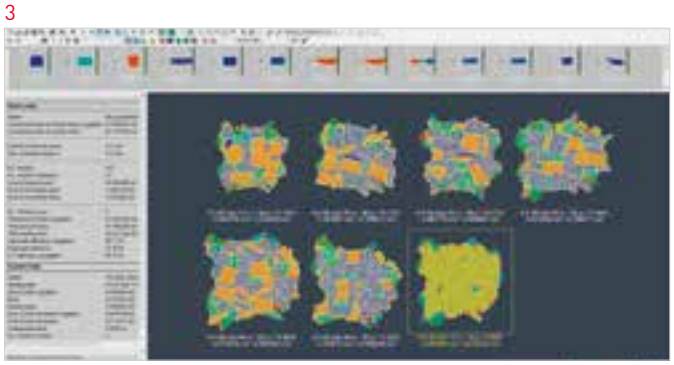
2. Thanks to the digitalization of processes, ***Versalis*** reaches an unrivalled level for cutting leather. In just a few years, savings on materials represent several million dollars, generating an unparalleled return on investment.

1

2



3



5

4

3-4. The use of costly hides is optimized due to ***Versalis'*** cutting precision and the power of algorithms in *Lectra's LeatherNest* marker-making software. Lectra's multi-hide marker-making software can generate additional material savings of 4%.

5. Skilled operators in leather cutting are rare. ***Versalis,*** by carrying out the less value-added tasks, enables operators to optimize their talents, leaving them free for tasks where experience is key, such as identifying the quality zones for natural hides.

Building the future

The Bordeaux-Cestas campus is emblematic of Lectra's strategy and is a showroom for Lectra's expertise. This exceptional site is home to the company's International Advanced Technology & Conference Center, the main Call Centers, R&D, the global logistics platform and Lectra Academy. A privileged place for dialogue and international gatherings, the campus has been totally refurbished and extended to better welcome Lectra's customers and to increase capacity for production and research. It provides all with a highly modern setting that fosters creativity and knowledge sharing. The campus also invites throughout the year customers from around the world to become familiar with the various aspects of Lectra's value proposition, share their experiences and test solutions dedicated to their professions. This is a major asset for the years ahead.

Lectra Academy: nurturing talent, at the heart of Lectra's strategy. A top priority for Lectra is fostering knowledge and skills within its teams. Launched in 2005, Lectra Academy's extensive training and support program helps develop every talent within the company, spanning all countries and professions.

Gold trophy 2016
Lectra Academy won a gold trophy during the first edition of U-Spring's, *Printemps des universités d'entreprise*, an event which rewards quality or innovative corporate training projects in France.

Sharing experiences

The International Advanced Technology & Conference Center (IATC) embodies Lectra's value proposition. Located at the heart of the Bordeaux-Cestas campus, the IATC aims to help customers and prospects to better understand Lectra, by providing an immersive and personalized experience of solutions dedicated to their industry. The IATC is run by experts in Lectra's solutions and its customers' businesses. They have a wealth of experience and a precise understanding of customers' and prospects' needs.

"Lectra's 3D is making the world a lot smaller; it makes it possible for us to achieve our targets when it comes to faster product development, more accurate and consistent fit, improved cost control, and better collaboration with suppliers."

Zeta Beckett
Senior Pattern Technologist
Matalan (United Kingdom).

'Fashion Forward': the future of fashion is digital

October 2016
Over 110 decision-makers—manufacturers, brands and retailers—and experts from 21 countries gathered to imagine the future of fashion, and to explore decisive factors set to influence their industry. Discussions revolved around design, product development and manufacturing of tomorrow.

"To remain competitive, carmakers need to keep up with the design trends fueling steadily growing demand for high-end leather interiors. Technology can therefore play a pivotal role in boosting leather value creation."

Gérard Payen
Program Director,
Espace, Renault (France)

'Go Digital': new opportunities for automotive leather

April 2016
Over 60 tanners and automotive equipment suppliers discussed the impact of digital transformation on the supply chain for leather car interiors and seats, including more flexibility and enhanced value creation. A new paradigm for this industry which is still characterized by largely manual processes.

'Stand Out From the Crowd': how to get ahead in furniture

November 2016
Around 50 furniture manufacturers and experts from 16 countries explored consumer and design trends, as well as innovative ways to differentiate and to stimulate growth in a highly competitive industry. Company testimonials illustrated advances made in the digitalization of product development, the cutting room and in monitoring processes.

FIND OUT MORE:
makeitwith.lectra.com/en/event

"The human touch is essential for us, and it must be supported through the use of cutting-edge technologies."

Federico Busnelli
R&D, B&B Italia

Providing for generations to come

A strong commitment to education. The most prestigious schools and universities in the world use Lectra technologies to nurture the talent of future fashion and apparel professionals. Lectra grants them the latest software and trains their academic staff. By providing access to its expertise and experience in industry best practices, Lectra contributes to strengthening the teaching quality of each school's education program. Generations of students gain a competitive advantage on the job market thanks to their command of these technologies.

Watch the video on
lectra.com

"In this competitive industry, it is an advantage to have experience using industry tools that simplify the creative process and bring ideas to life quickly and easily. Our goal is to provide our students with skills that make them more marketable when it comes to finding a design job. This experience has given them a taste of what it's like to come up with new styles in an actual retail design setting."

Gerard Dellova
Teacher at FIT
Cagla Ertan
Competition winner

Lectra, JCPenney and the Fashion Institute of Technology (FIT) organize a *Kaledo* competition

April 2016
Lectra and JCPenney, one of the largest department store chains in the United States, organized a competition to support the New York fashion school FIT in its mission to prepare its design students for careers in the fashion industry. The young designers used *Kaledo* to create a collection based on the brand's positioning and its customer profile.

850
partner schools and universities in the world

70,000
Lectra licenses granted

The Lectra-ESCP Europe Chair dedicates a roundtable to supply chain strategies

May 2016
Fashion companies endeavor to lessen the mismatch which exists between supply and demand. Producing too many of the wrong products and too few of the right products does not have to be the case. During a conference held by the Fashion and Technology Chair, Marshall Fisher, a professor at the Wharton School of Management, Philadelphia, compared two approaches available to companies to manage the supply chain: *"sell what you've made"* or *"make what's selling"*. He cited existing solutions, like forecasting by extrapolating from early sales data, and underlined their respective impact on processes for brands and manufacturers.

FIND OUT MORE:
lectrafashionnetwork.lectra.com/en/perspective-insight

Lectra and Donghua university reflect on the Made in China 2025 initiative with fashion professionals

November 2016
Lectra organized a thought-leadership event which gathered customers and prospects to the prestigious education partner Donghua University, Shanghai. 84 participants shared their thoughts on the theme *'key technologies which fashion companies can use to transform themselves in sync with the Made in China 2025 initiative'*. Speakers from Martine Leherpeur Conseil, Condé Nast, and the Ministry of Industry and Information Technology (MIIT) debated the digitalization of the supply chain, intelligent production and mass customization.

Balenciaga reveals its secrets to Lectra's education partners in Italy

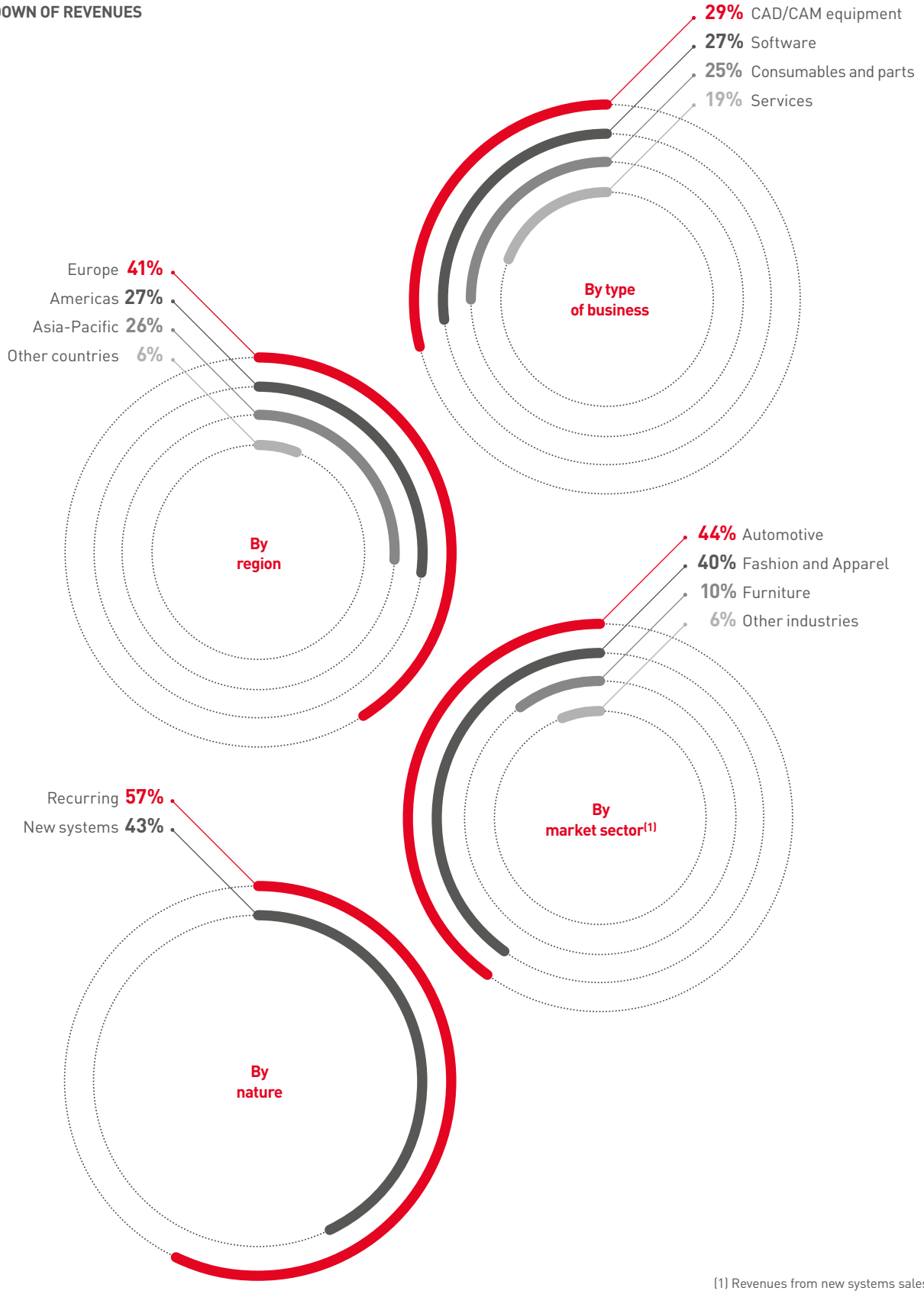
July 2016
A keen user of *Modaris*, the luxury brand unveiled to students at prestigious Italian fashion schools how to develop high-quality, ready-to-wear collections, and above all, how to pay close attention to patternmaking.

"I think that is important for schools to understand what led a company to choose one software solution instead of another one. We have a business vision and our approach is oriented to the continuous improvement of internal processes."

Carlo Licausi
Director of Operations, ready-to-wear, Balenciaga

2016 Key figures

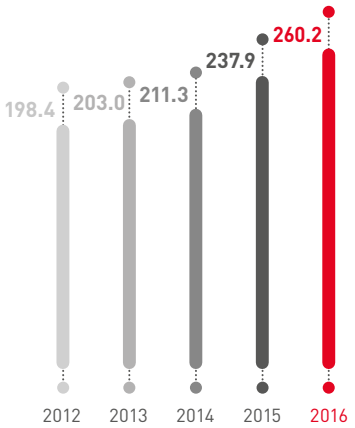
BREAKDOWN OF REVENUES



(1) Revenues from new systems sales.

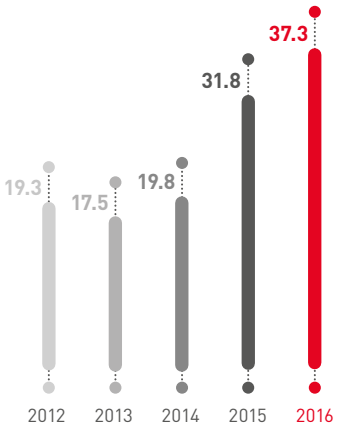
In millions of euros

REVENUES

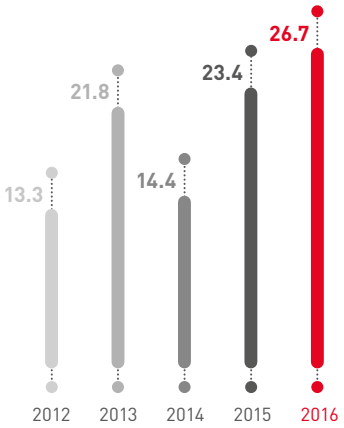


INCOME FROM OPERATIONS

Before non-recurring items in 2013

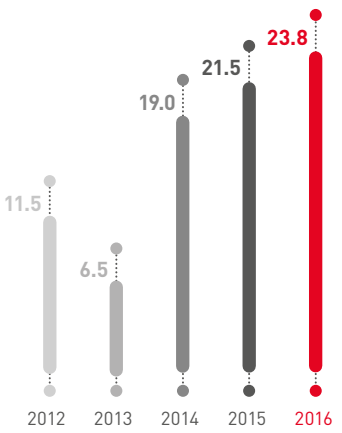


NET INCOME

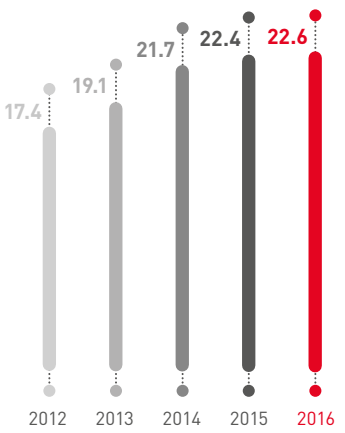


FREE CASH FLOW

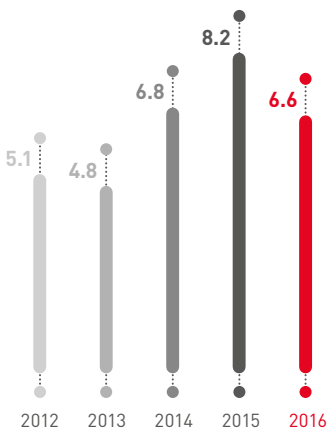
Before non-recurring items in 2013



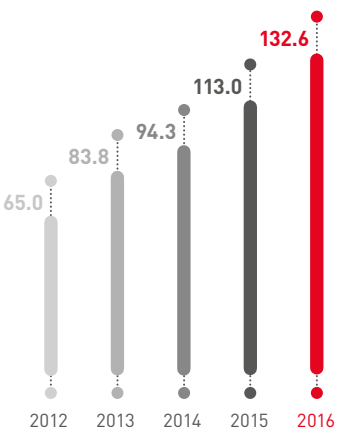
RESEARCH & DEVELOPMENT



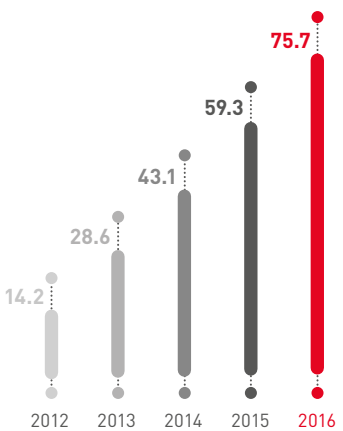
CAPITAL EXPENDITURE



SHAREHOLDERS' EQUITY



NET CASH



The Company has been debt-free as of March, 31 2015.

Financial highlights

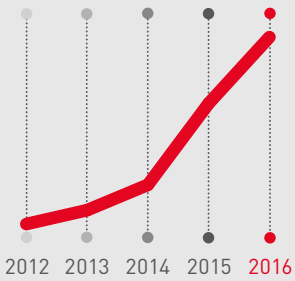
(in millions of euros)	2016	2015	2014	2013	2012
Revenues	**260.2**	237.9	211.3	203.0	198.4
Income from operations before non-recurring items[1]	**37.3**	31.8	19.8	17.5	19.3
Income from operations[1][2]	**37.3**	31.8	19.8	27.9	19.3
Net income	**26.7**	23.4	14.4	21.8	13.3
Free cash flow before non-recurring items[3]	**23.8**	21.5	19.0	6.5	11.5
Free cash flow[3][4]	**23.8**	21.5	19.0	17.6	11.5
Shareholders' equity[5]	**132.6**	113.0	94.3	83.8	65.0
Net cash[5]	**75.7**	59.3	43.1	28.6	14.2
Research & development[6]	**22.6**	22.4	21.7	19.1	17.4
Capital expenditure	**6.6**	8.2	6.8	4.8	5.1
Number of employees[5]	**1,550**	1,517	1,474	1,433	1,345

(1) The (French) research tax credit is deducted from R&D expenses and included in income from operations before non-recurring items.
(2) Includes in 2013 a non-recurring income of €11.1 million related to the remaining amount due in the litigation against Induyco, and a €0.7 million non-recurring expense due to goodwill impairment.
(3) In 2016, the Company received the balance of €5.1 million of the 2012 research tax credit. In 2015, it received the balance of €4.8 million of the 2011 research tax credit. In 2014, it received the balance of €5.7 million of the 2010 research tax credit. There were no repayment of any research tax credit in 2013 and 2012.
(4) Includes in 2013 the receipt of €11.1 million of the remaining amount due in the litigation against Induyco, for which a first payment of €15.9 million had been received in 2010.
(5) At December 31.
(6) Before deduction of the research tax credit, of the relative share of the (French) competitiveness and employment tax credit and of grants for R&D programs.

Focus 2013-2016

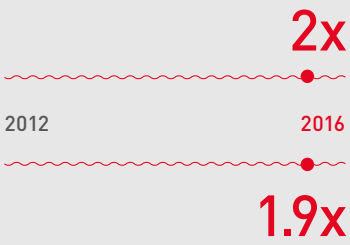
Financial targets achieved overall

The company had set the following financial targets under its 2013-2016 roadmap: revenue growth equal to, or above 33%, over the period; a 15% operating margin[1] in 2016; income from operations[1] and net income to more than double in four years; and, finally, a security ratio—the percentage of annual fixed overhead costs covered by gross profit on recurring revenues—greater than 75%. In light of turmoil in the macroeconomic environment and currency parities, the company announced in February 2016 that its ambition was now to reach the financial goals of its roadmap at actual exchange rates rather than like-for-like[2].



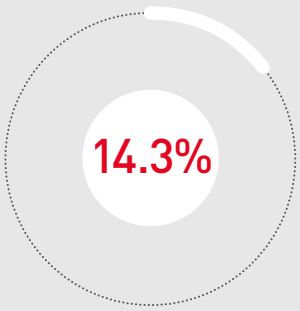
31%

Revenue growth over the 2013-2016 period[3]



Income from operations and net income multiplied respectively by 1.9 and 2[3].

2016 security ratio

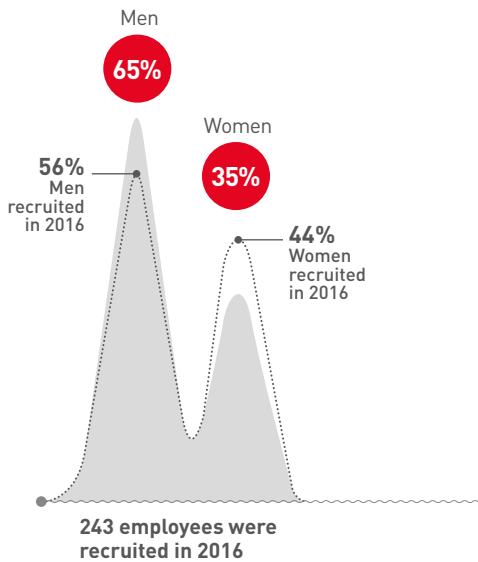


2016 operating margin

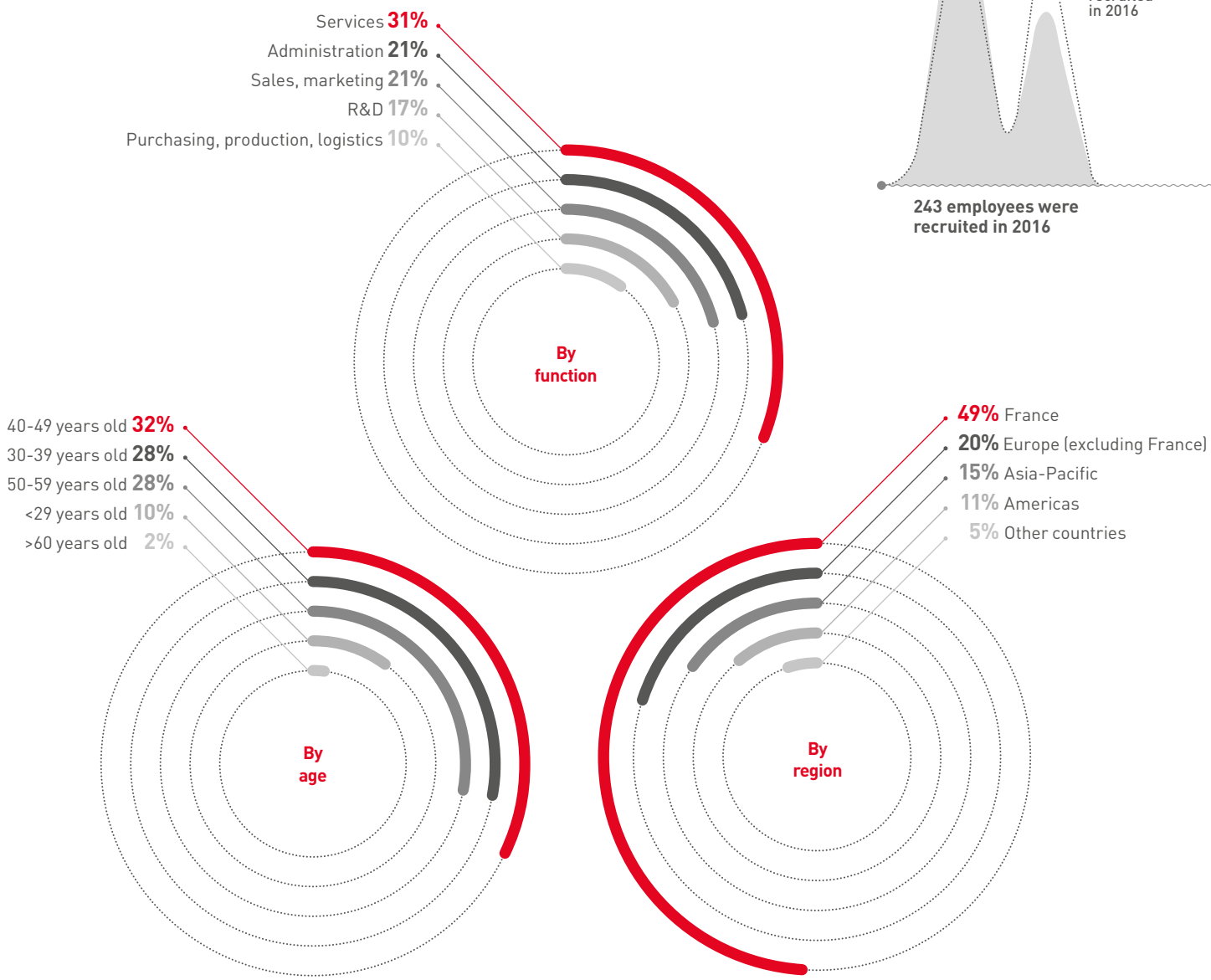
(1) Before non-recurring items.
(2) Exchange rates at February 1, 2013, notably $1.35/€1.
(3) Change at actual exchange rates.

Lectra's commitment

Lectra has the clear objective to implement best practices for corporate governance and social, environmental and societal responsibilities. As the company's activities are, primarily, founded on the value of its managers and its teams' expertise, Lectra invests significantly in training and skills development. Women account for 30% of the Group management team. With equivalent compensation for men and women, workplace gender equality and equal pay are a reality for Lectra. The company rejects all notion or practice of discrimination between people. Lectra has chosen to focus its commitment on education, in particular training future professionals.



BREAKDOWN OF WORKFORCE
1,550 employees at December 31, 2016

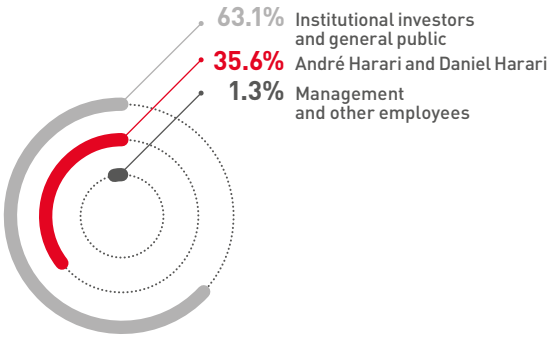


Shareholder information

At February 23, 2017

Capital

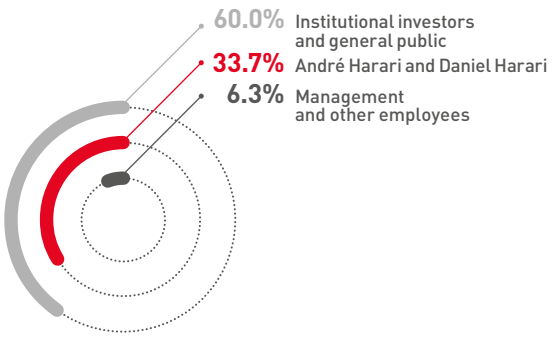
31,262,878 shares



The free float is over 60%. Most is held by institutional investors. Kempen Oranje Participaties (Netherlands), which is managed by Kempen Capital Management NV, and Allianz SE (Germany) through French companies it controls, each hold more than 5% (but less than 10%) of the capital and the voting rights. No other shareholder holds more than 5% of the capital or the voting rights.

Fully diluted Capital [1]

33,001,753 shares

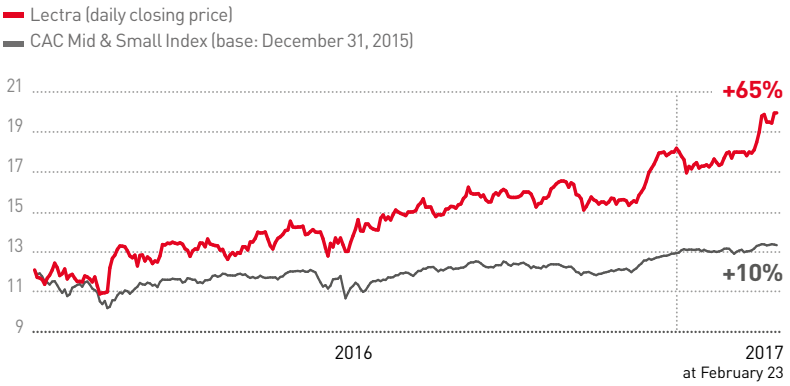


Thanks to a motivating stock option program, the Group's management and key employees (265 in total) hold 6.3% of the fully diluted capital. André Harari and Daniel Harari hold no stock options. The Group intends to pursue this selective policy of promoting employee share-ownership. Fully-vested stock options totaled 3.8% of the base capital.

(1) 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 (regardless of whether these are fully vested or have not yet been vested) and eligible for the subscription of new shares.

Share price evolution

(in euros)



Lectra's share price multiplied by 3.8 over the 2013-2016 strategic roadmap, rising from €4.73 on December 31, 2012 to €18.02 on December 31, 2016, and market capitalization multiplied by 4.1, increasing from €137 million to €563 million.

Dividend

The Board of Directors proposed to the annual Shareholders' Meeting of April 28, 2017 to increase the dividend by 17%, to €0.35 per share, in respect of the fiscal year 2016. This dividend represents a payout ratio of 41% of 2016 net income and a yield of 1.9% based on the December 31, 2016 closing share price.
The Company is determined to pursue its dividend-payment policy over the roadmap's period, with an expected payout ratio, over the 2017-2019 new strategic roadmap period, of around 40% of net income, the remaining 60% being used to fund Lectra's growth internally. The aim is to achieve a steadily rising dividend per share.

(in euros)	2016	2015	2014	2013	2012
Share price – high	**18.32**	14.65	9.45	8.59	5.42
Share price – low	**10.76**	8.98	7.01	4.59	4.04
Closing share price[1]	**18.02**	12.10	9.14	8.29	4.73
Shareholders' equity per share[1]	**4.24**	3.67	3.10	2.83	2.25
Net cash per share[1]	**2.42**	1.93	1.42	0.97	0.49
Earnings per share[2]					
* Basic	**0.86**	0.76	0.48	0.75	0.46
* Diluted	**0.84**	0.74	0.47	0.73	0.46
Number of shares[1][3]	**31.2**	30.8	30.3	29.7	28.9
Market capitalization[1][4]	**563.1**	372.5	277.2	245.9	136.9
Annual volume traded[4][5]	**69.1**	101.9	54.9	47.6	19.7
Annual volume traded[3][5]	**4.8**	8.7	6.8	8.1	4.2

(1) At December 31.
(2) Earnings per share on basic capital are calculated using the weighted average number of shares. Earnings per diluted share are calculated according to the corresponding IAS rule.
(3) In millions of shares.
(4) In millions of euros.
(5) Source Euronext. By including trades realized on any other trading platform, total trading volume represents almost twice the volume recorded on Euronext (Company estimate).

2016 FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dear Shareholders,

This Management Discussion and Analysis reports on the company's operations and financial results, as well as on those of all of its subsidiaries, for its 43rd fiscal year, ended December 31, 2016.
It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 28, 2017, which in addition discusses in detail the financial statements and other disclosures relating to the parent company, Lectra SA, presents its report on the Group's corporate social, environmental and societal responsibility information in the framework of the "Grenelle II" Act, and from the report of the Board of Directors to the Extraordinary Shareholders' Meeting of April 28, 2017, which explain the reasons underlying the draft resolutions submitted for approval by the shareholders. These documents are available, in French only, on the Company's website, lectra.com.
Detailed comparisons between 2016 and 2015 are based on 2015 exchange rates ("like-for-like"), unless stated otherwise.

1. SUMMARY OF EVENTS AND PERFORMANCE IN 2016

Tough Macroeconomic Conditions

In its February 11, 2016 report, the Company stated that it entered 2016 with even more solid operating fundamentals than in 2015 and an even stronger balance sheet. Lectra's newly formed sales teams were expected progressively to build momentum.
It further stated that the outlook for 2016 looked unpredictable once again.
Macroeconomic and geopolitical conditions were indeed difficult year-long, especially so in some countries, with the US elections and their impact on Mexico, the political and economic situations in Brazil and Turkey, weak growth in much of Western European, terrorist attacks or the risk of attacks in a growing number of countries, etc. These conditions continued to weigh on corporate investment decisions.

Strong Growth in Orders for New Systems

Overall, orders for new systems amounted to €115.6 million, up €13.5 million (+13%) relative to 2015: +6% for new software licenses, +17% for CAD/CAM equipment and +5% for training and consulting.
Geographically, the situation is highly contrasted: orders in Asia-Pacific increased by 47% and by 18% in Europe. They decreased by 26% in the Americas (–21% in North America and –44% in South America)—in 2015, orders in the Americas increased by 55%, while those in Asia-Pacific decreased by 1%. In the rest of the world (North Africa, South Africa, Turkey, the Middle East, etc.), they decreased by 1%.
Orders rose 3% in the fashion and apparel market, 36% in the automotive market, and 6% in the furniture market. In the other industries, they decreased by 12%. These markets respectively accounted for 45%, 40%, 10% and 5% of total orders.

Revenues and Earnings Up Sharply, In Line with the Company's Roadmap

The Company's stated objectives for FY 2016 at the beginning of the year were to grow revenues by 6% to 12% and to grow income from operations by 8% to 25%, like-for-like.
With June 30 results in line with its roadmap, the Company decided to step up its R&D plan with effect from July 1, 2016; this decision was expected to increase fixed overhead costs while slowing the growth of income from operations. Revising its initial objectives accordingly, the Company stated that it now expected revenue growth of between 8% and 11% for FY 2016, and 9% to 19% growth in income from operations, like-for-like.
Revenues totaled €260.2 million, up by 10% relative to 2015 (+9% at actual exchange rates).
Income from operations reached €37.3 million, up €5.8 million (+18%), and the operating margin was 14.3%, up 1 percentage point. At actual exchange rates, the increase is up 17% and 0.9 percentage point respectively.
These results are at a record high for the Company, at the top of the range of expected revenues and income from operations for FY 2016, as indicated on July 28 and confirmed on October 28, as well as for the objectives set at the beginning of the year before the decision to step up the R&D program.
Net income reached €26.7 million, up by €3.3 million (+14%) at actual exchange rates.

Increased Free Cash Flow

Free cash flow amounted to €23.8 million, versus €21.5 million in 2015.

A Zero-Debt Company, Shareholders' Equity and Net Cash Position Further Strengthened

At December 31, 2016, consolidated shareholders' equity amounted to €132.6 million (€113 million at December 31, 2015) after payment on May 6 of the dividend of €9.3 million (€0.30 per share) declared in respect of FY 2015.
The Company has been debt free since March 31, 2015. Cash and cash equivalents as well as net cash position totaled €75.7 million (€59.3 million at December 31, 2015).

Acquisitions and Partnerships

The company made no acquisitions in 2016 and did not enter into any new strategic partnership agreements.

2. ASSESSMENT OF 2013-2016 STRATEGIC ROADMAP

In order to emerge strengthened from the 2008-2009 economic and financial crisis, to prepare for new post-crisis challenges and seize resulting opportunities, Lectra deployed a first roadmap for the 2010-2012 period. The results clearly demonstrated its effectiveness, and Lectra's robust business model and resilience.
To maintain this momentum, a second roadmap was rolled out for the 2013-2015 period.
In February 2014, in response to slower than anticipated global growth and more uncertain macroeconomic conditions, and as a precautionary measure, Lectra postponed the financial objectives initially set for 2015 until the end of 2016. Consequently, the roadmap was extended to cover the period from 2013 to 2016 and the Company's financial report carried a progress report each year.

A Successful Company Transformation

The aim of the 2013-2016 roadmap was to enable Lectra to fulfill its growth potential, while continuing to prioritize the Company's long-term strategy.

Lectra's five strategic objectives have guided the Company's actions over the four-year period. They are: to accentuate Lectra's technological leadership and further enhance the value of its product and service offer; to strengthen the Company's competitive position and long-term relationships with customers; to accelerate organic growth and preserve cash for future acquisitions; to boost profitability by regularly increasing the operating margin; and to generate free cash flow in excess of net income, to enable the Company to self-finance future growth.
Lectra has emerged entirely transformed from this period. It has bolstered its technological advance, enhanced the expertise of its teams and the value of its offer, notably in cutting room automation. It has boosted its overall competitiveness, forged strong relationships with prestigious customers in all of its main market sectors and geographic markets, consolidated its positions in automotive and fashion and apparel, and acquired strong positions in furniture. Finally, Lectra's revenues, income from operations, operating margin, net income and free cash flow have all—excluding non-recurring items—risen annually, reaching record levels, enabling the Company to fund its growth internally. With its emphasis on organic growth, Lectra has not made any acquisitions.

Enhanced Capabilities in All Areas

Launched at the end of 2011 and completed by the close of 2015, the transformation plan and €50 million in investments for the future, fully expensed, served to renew and substantially strengthen Lectra's workforce. Resources were successfully reallocated to the most strategic activities and the most promising market sectors and geographic markets. Lectra's workforce at December 31, 2016 totaled 1,550 people (compared to 1,338 at end-2011), 42% of whom joined in the last five years. Over the same period, the Company boosted training, while bringing its image into sharper focus and raising its profile.
Lectra's Bordeaux-Cestas campus—emblematic of the Company's strategy and a showcase for its expertise—was extended and totally refurbished to better welcome customers from all over the world. The campus creates

a highly modern setting for Lectra's workforce fostering creativity and the sharing of information and experience. As a privileged venue for dialogue and international gatherings, the campus will be a major asset in years to come.

In addition, to ramp up production capacity and achieve the highest performance standards, Lectra has rethought and adapted its industrial facilities and global logistics platform, where the Company develops, assembles and ships all CAD/CAM equipment. Thanks to the roll out of lean manufacturing methods, it has cut overall hardware production costs while boosting the quality of its industrial processes. The close proximity of R&D teams, the main Call Center and production facilities in a single location will further spur innovation.

The Group has also strengthened its global presence by opening subsidiaries in two of the most dynamic Asian economies: in South Korea in 2014, and Vietnam in 2016. Lectra's international network of 33 subsidiaries, unmatched by any of its competitors, enables the Company to deliver its value proposition across the world, adapting to each local context. Lectra's teams are the partners of choice for major brands and worldwide manufacturing corporations, accompanying them wherever they are located, to address the challenges of a globalized economy.

Fundamental Advances in Technology

Over this four-year period, the Company invested €86 million in R&D, representing 9.4% of revenues, fully expensed.

These investments enabled Lectra to enrich its software offer for fashion and apparel with new versions of its flagship solutions *Kaledo, Modaris, Diamino* and *Lectra Fashion PLM*. In addition, investments drove leading-edge innovations for Lectra's automated cutters, across all market sectors. The *Vector* range (for fabric and composite materials) and the *Versalis* range (for leather) were entirely renewed in 2012, then extended. At the end of 2015, Lectra launched its new generation of laser cutter for airbags, the *FocusQuantum*. Lectra's offer for the cutting room is unrivalled in today's marketplace.

Record Financial Results

Between 2012 and 2016, orders for new systems increased by 32%, and revenues by 31%, at actual exchange rates. Income from operations and net income multiplied respectively by 1.9 and 2. The operating margin reached 14.3%, up 4.6 percentage points. The security ratio—the percentage of annual fixed overhead costs covered by gross profit on recurring revenues—remained above the 75% target throughout the period, reaching 84% in 2016.

Even though these results fall slightly short of the financial goals set by the Company in February 2013, their strong momentum, especially in 2016, demonstrates Lectra's ability to accelerate organic growth and strengthen profitability despite uncertainties and highly challenging macroeconomic conditions over the period.

The Group's balance sheet has never been so strong. Thanks to a cumulative free cash flow of €70.8 million over the 2013-2016 period, net cash rose to €75.7 million after payment of €29.9 million in aggregate dividends in respect of FY 2012 to 2015. The Company has been debt free since March 2015, and shareholders' equity has more than doubled in four years, to €132.6 million on December 31, 2016. Finally, the working capital requirement was a negative €22.8 million after restatement of the receivable of €21.6 million on the French tax administration *(Trésor public)* corresponding to the research tax credit recognized since fiscal year 2013 but not yet received or offset against income tax, representing a decline of €9.4 million compared to 2012.

Meanwhile, Lectra's share price multiplied by 3.8, rising from €4.73 on December 31, 2012 to €18.02 on December 31, 2016, and market capitalization multiplied by 4.1, increasing from €137 million to €563 million.

A Strong Foundation for Future Developments

These results, associated with the success of Lectra's €50 million investments for the future from 2012 to 2015, create a solid foundation for building the Company's next roadmap.

3. CONSOLIDATED FINANCIAL STATEMENTS FOR 2016

With an average parity of $1.11/€1, the US dollar remained stable compared with 2015, while the yuan declined 5%.
Despite the stability of the euro/dollar exchange rate, currency movements mechanically decreased revenues by €1.3 million (–0.5%) and income from operations by €0.4 million (–1%) at actual exchange rates, compared with like-for-like figures.

Revenues

Revenues totaled €260.2 million, up 10% like for like and +9% at actual exchange rates.
They increased in all regions: +7% in Europe, +5% in the Americas, +23% in Asia-Pacific, and +5% in the rest of the world. These regions respectively accounted for 41% (including 7% for France), 27%, 26%, and 6% of total revenues. In 2015, these regions respectively accounted for 43% (including 7% for France), 28%, 23%, and 6% of total revenues.

Revenues From New Systems Sales

Revenues from new systems sales (€113.1 million) increased by 14% and accounted for 43% of total revenues (42% in 2015):
– revenues from new software licenses (€24.5 million) increased by 4% and accounted for 9% of total revenues (10% in 2015);
– CAD/CAM equipment revenues (€74.7 million) increased by 22% and accounted for 29% of total revenues (26% in 2015);
– training and consulting revenues (€11.6 million) decreased by 5% and accounted for 4% of total revenues (5% in 2015).

Revenues From Recurring Contracts and Consumables and Parts

Recurring revenues (€147.1 million) increased by 7%. They accounted for 57% of total revenues (58% in 2015). Revenues from recurring contracts—which contributed 57% of recurring revenues and 32% of total revenues—totaled €83.1 million, a 5% increase:
– revenues from software evolution and online services contracts (€47.4 million), up 4% compared with 2015, represented 18% of total revenues;
– revenues from CAD/CAM equipment maintenance and online services contracts (€35.7 million), up 7%, contributed 14% of total revenues.
Revenues from consumables and parts (€64 million), meanwhile, increased by 10% and represented 25% of total revenues, as in 2015.

Order Backlog

At December 31, 2016, the order backlog for new systems (€25.8 million) was up €2.8 million relative to December 31, 2015 at actual exchange rates.
This backlog comprised €18.3 million in orders for new software licenses and CAD/CAM equipment, including €16 million for shipment in Q1 2017, and the remainder over the rest of the year, and €7.5 million for training and consulting, to be supplied as projects progress.

Gross Profit

Gross profit amounted to €191.7 million, an increase of €13.7 million compared to 2015.
The overall gross profit margin was 73.7%. Like-for-like, it decreased by 1.6 percentage points relative to 2015, primarily as a result of 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 €154.5 million, up €7.8 million (+5%) compared with 2015. They break down as follows:
– €138 million in fixed overhead costs (+4%);
– €16.5 million in variable costs (+12%).
Total overhead costs increased by 5% at actual exchange rates.
R&D costs (€22.6 million) are fully expensed in the period and included in overhead costs. They represented 8.7% of revenues (€22.4 million and 9.4% in 2015). After deducting the research tax credit and the corresponding portion of the competitiveness and employment tax credit applicable in France, net R&D costs amounted to €15.5 million (€14.3 million in 2015).

Income From Operations and Net Income

Income from operations amounted to €37.3 million, an increase of €5.9 million (+18%) like-for-like and €5.5 million (+17%) at actual exchange rates compared with 2015.

This increase stems from the positive impact of the growth in recurring revenues (€7.2 million) and in revenues from new systems sales (€5.9 million). These impacts were partly offset by the increase in fixed overhead costs (€6 million), by the decrease in gross profit margins (€1.3 million) and from the adverse impact of currency fluctuations (€0.4 million).

The operating margin was 14.3%, up 1 percentage point like-for-like and 0.9 percentage point at actual exchange rates.

Financial income and expenses represented a net charge of €0.3 million. Foreign exchange gains and losses generated a net loss of €0.5 million.

After an income tax expense of €9.9 million, net income amounted to €26.7 million, up €3.3 million (+14%) at actual exchange rates.

Net earnings per share were €0.86 on basic capital and €0.84 on diluted capital (€0.76 on basic capital and €0.74 on diluted capital in 2015).

Free Cash Flow

Free cash flow amounted to €23.8 million, up €2.3 million compared with 2015, at actual exchange rates. This includes the receipt of €5.1 million relating to the 2012 French research tax credit (€4.8 million in 2015 relating to the 2011 French research tax credit).

The research tax credit (€6.8 million) and the competitiveness and employment tax credit (€0.8 million) for 2016, applicable in France, were accounted for but not received. After including the share of the research tax credit not offset against Lectra SA's tax expense for the period (the competitiveness and employment tax credit having been charged in full), free cash flow would have been €21.3 million, excluding reimbursement of the 2012 research tax credit.

The free cash flow figure for 2016 includes a €4.8 million non-recurring impact of disbursements relating to the Bordeaux-Cestas refurbishment and extension program launched in 2014. This program will continue until the middle of 2017 with a total budget of approximately €10 million.

Shareholders' Equity

At December 31, 2016, consolidated shareholders' equity amounted to €132.6 million (€113 million at December 31, 2015) after payment on May 6 of the dividend of €9.3 million (€0.30 per share) declared in respect of FY 2015.

The Company has been debt free since March 31, 2015. Cash and cash equivalents as well as net cash position totaled €75.7 million (€59.3 million at December 31, 2015).

The working capital requirement was a negative €1.3 million. This includes the receivable of €21.6 million on the French tax administration *(Trésor public),* corresponding to the research tax credits recognized since fiscal year 2013 but not yet received or offset against income tax. Restated for this receivable, the working capital requirement was a negative €22.8 million, a key feature of the Group's business model.

When these tax credits cannot be deducted from 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 fourth year. Thus, the Company received in Q3 2016 and 2015 the reimbursement of the balance of the 2012 and 2011 research tax credits.

4. RISK FACTORS—MANAGEMENT OF RISKS

This chapter describes the main risks facing the Company with regard to the specific characteristics of its business, of its structure and its organization, of its strategy and its business model. It further describes how the company manages and prevents these risks, depending on their nature.
The chapter has been organized to identify risk factors specific to the Group. They have been arranged in descending order of priority, according to whether they are of high, secondary, or low importance. Risks in 2016 were more or less identical to those described in the 2015 Management Discussion.
Risk management and internal control procedures are discussed in chapter 2 of the Chairman's Report on Internal Rules and Procedures, and on Corporate Governance, appended to this report, and readers are invited to refer to it.

Identification of Risks

For internal controls 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 (or its 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 external environment together with the organizational changes rendered necessary by the evolving nature of its markets and the macroeconomic environment. This process is overseen by the Finance division and the Legal Affairs department, with input from all Group operating and corporate departments.
As in previous years, the Audit Committee has reviewed risks liable to have a significant adverse impact on the Company's human capital, assets, environment, goals, together with its activity, financial condition, or financial results (or its ability to achieve its goals), or reputation, and considers that there are no other significant risks than the ones discussed below.
The Group has for many years endeavored to take these risks into account in the conduct of its operations, to avoid impairing its ability to grow.
The key factor protecting the Group is its business model, and in particular:
– a balance of risks, which benefit from natural hedging by the distribution of business activity over market sectors and geographic markets with cycles that are different from each other, and by 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, a key factor in the company's stability, that provide a cushion in periods of difficult economic conditions;
– the generation of significant annual free cash flow enabling the Group to finance its future growth out of its own cash, with its structurally negative working capital requirement.
The gross profit generated by recurring revenues alone covers more than 80% of annual fixed overhead costs (this ratio was 84% in 2016).
The move toward a SaaS model, as called for in the 2017-2019 roadmap (see chapter 14), will strengthen recurring revenues from software, further bolstering the Group's security ratio.
Finally, uncompromising ethics in the conduct of business and respect for each individual are part of the Company's core values.

4.1. Macroeconomic Environment Risks

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

Risks Connected With the State of the Global Economy

The degraded macroeconomic environment has been the chief risk affecting the Group since the economic and financial crisis in 2008.
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 economic slowdown in certain emerging countries, including China, Brazil and Turkey, has notably led to a further deterioration, and this situation could persist over the next few years.
The constant shift between good and bad news, a lack of visibility, and companies' growing concerns over when a lasting economic recovery is going to take place will weigh even more heavily on their investment decisions —and hence on Group revenues and earnings—than the deteriorating macroeconomic conditions.
There is practically zero Brexit-related risk, the United Kingdom having accounted for less than 3% of consolidated revenues over the past three fiscal years, and because short-term GBP-denominated receivables and debts are hedged systematically.

Risks Related to Geographic Markets and Market Sectors

Apart from periods of severe economic crisis, the risks associated with the Company's business activity are naturally hedged by the international reach of the Company's sales and services, and by their range over a number of market sectors (chiefly fashion and apparel, and automotive, which respectively accounted for 40% and 44% of revenues from new systems sales in 2016) with different business cycles and growth rates, serving to offset these risks.
The far-reaching changes being brought about by globalization, such as relocation and repatriation of production, are resulting in revenue loss in one country and gains in another, albeit with a possible time lag. Thanks to its strong presence in the major emerging countries, forecast to generate half of total global growth in the present decade, the Group is well placed to turn this into a vehicle for dynamic growth. The other half of global growth is expected to take place in developed countries where the Group has a historical presence and a large market share.
In 2016, as in 2015, almost 50% of total revenues were generated in five countries: United States (14%), China (11%), Italy (9%), Mexico (9%), and France (7%). The corresponding figures in 2015 were respectively 14%, 11%, 10%, 9% and 7%.

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

Lectra designs, produces, and markets full-line technological solutions—comprising software, CAD/CAM equipment, and associated services—specifically designed for industries that use large volumes of fabrics, leather, technical textiles, and composite materials.
It addresses a broad array of major global markets, including fashion and apparel, automotive (car seats and interiors, airbags), furniture and a wide variety of other industries, such as aeronautical, marine industries and wind power.

Innovation Risks

This activity demands continuous creativity and a relentless search for innovation. The Group needs to retain its technological leadership in its historical business of CAD/CAM software and equipment and related services, which now account for the vast bulk of its revenues. The Group is the world number one in this sector, with an estimated market share of around 25-30%. In addition, it faces competition from the global software leaders in the area of Product Lifecycle Management (PLM) for the fashion and apparel sector.
The Company invests heavily in research and development, which accounts for 8.7% of revenues in 2016, before deduction of the research tax credit, the share of the competitiveness and employment tax credit applicable in France, and possible subsidies linked to certain R&D programs. Despite the quality of its engineers and of the project development process, some programs may carry a risk of technical or commercial failure, or may be delayed. In this event, the Group could lose its technological leadership and thus become more exposed to competition. As in other sectors, moreover, there is a risk of a disruptive technology or business model unsettling its market positions.
As a corollary of this policy, the Company must ensure both that its innovations are not copied and that its products do not infringe third parties' intellectual property. Moreover, it needs to protect itself against software piracy, which could curb its growth in certain countries.
It has a dedicated team of intellectual property specialists that takes both offensive and defensive measures with

regard to patents. Working with the Legal Affairs department, this team tracks down pirated copies of its software and takes the necessary legal action to protect the Company's rights.
R&D expenditures are fully expensed in the year. Consequently, the Group's technology assets are valued at zero in the statement of financial position, and there is therefore no risk of impairment.

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 in the face of a persistently weak US dollar against the euro until mid-2014; and, finally, to boost its margins.
The decision has also served to protect its intellectual property. This risk-protection strategy was made possible only through innovation. The 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. 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 strategic products prior to selection and then continuously. 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 a rapid growth in sales of CAD/CAM equipment and shipments of consumables and parts, since the Bordeaux-Cestas (France) manufacturing site has sufficient capacity to increase its output by 50% with no major new investment and around 50 additional staff members.
The economic value of the land and buildings comprising the Bordeaux-Cestas site currently exceeds its historical cost of €13.1 million, but the site figures in the statement of financial position at December 31, 2016 for a net value of €6.2 million only. Therefore, there is no risk of an impairment charge.

4.3. Market Risks

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

Specific Foreign Exchange Risks

It is Group policy to manage these risks conservatively, refraining from any form of speculation, by means of hedging instruments.
A substantial proportion of revenues is denominated in various currencies whose fluctuations against the euro constitute a foreign exchange risk for the Group.
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 regard to certain of its Chinese competitors or international competitors whose products are manufactured in China.
In 2016, 42% of the Group's consolidated revenues, 83% of its cost of sales, and 67% of its overhead expenses were denominated in euros. These percentages were

respectively 35%, 11%, and 14% for the US dollar, and 5% (a portion of revenues generated in China being invoiced in US dollars or in other currencies), 1% and 7% for the Chinese yuan. Other currencies each represented less than 4% of revenues, of the cost of sales and of overhead costs.

Currency fluctuations impact the Group at two levels:

a) 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—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;

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

Currency risk is borne by the parent company. The Group seeks to protect all of its foreign currency receivables and debts as well as future cash flows against currency risk on economically reasonable terms. Hedging decisions take into account currency risks and trends where these are likely to significantly impact the Group's financial condition and competitive situation. The bulk of foreign currency risk 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 (calls euros/puts dollars) or by forward currency contracts, when justified by the cost of the hedge.

This was not the case in 2016.

Sensitivity to US dollar fluctuations and other currencies is shown in note 33 to the consolidated financial statements. The Group's statement of financial position exposure is monitored in real time; it utilizes forward currency contracts to hedge all relevant receivables and debts.

Interest-Rate Risks

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

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 28, 2017 (see chapter 10) and is therefore not subject to stock market risk.

4.4. Customer Dependency Risks

Each year, revenues from new systems, accounting for 43% of total revenues in 2016, are generated by around 1,600 customers and comprise both sales to new customers and extensions or the renewal of existing customers' installed bases. Revenues from recurring contracts, accounting for 32% of 2016 total revenues, are generated by around 6,000 customers. Finally, sales of consumables and parts, which account for 25% of 2016 total revenues, are generated on a large proportion of the installed base of nearly 6,500 cutters. These figures are more or less identical to those for 2015, but the installed base has grown.

There is thus no material risk of dependence customers, as no individual customer represented more than 6% of consolidated revenues over the last three-year period 2014-2016, and the Company's 10 largest customers represented less than 20% of revenues combined, and the top 20 customers less than 27%.

4.5. Legal and Regulatory Risks

The Group markets its products in more than 100 countries through a network of 33 sales and services subsidiaries, supplemented by agents and distributors in countries where it does not have a direct presence. Consequently, it is subject to a very large number of legal, customs, tax, and social regulations in these countries. While the Company's internal control procedures provide reasonable assurance of compliance with the prevailing laws and regulations, unexpected or sudden changes in certain rules (particularly regarding the establishment of trade barriers), as well as political or economic instability in certain countries, are all liable to impact the revenues and results of the Group.

From a tax point of view, there are many intra-Group flows requiring the existence of a transfer pricing policy compliant with French, local, and international guidelines (in particular the OECD). Adequate documentation setting forth Group policy in this regard has been put in place.

R&D activity qualifies for the French research tax credit *(Crédit d'Impôt Recherche),* which in 2016 represented €6.8 million, or 30% of the total corresponding expense, 18% of income from operations, and 25% of net income. Any significant reduction or abrogation of this tax credit would therefore have an impact on Group income. The December 29, 2016 Budget Act for 2017 *(Loi de finances pour 2017)* has no impact on the Company's qualification for the research tax credit.

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 and is therefore subject to stock market regulations, particularly those of the *Autorité des Marchés Financiers* (AMF), the French Financial Markets Authority.

4.6. Human Resources Risks

The Group's performance depends primarily on the competence and expertise of its personnel, the quality of its management and its capacity to unite its teams in addressing the Group's strategic challenges.

Any departure within the management team or of certain experts could affect the company's operations and financial results, given its size, the breadth of its international reach, the array of market sectors covered, and the components of its business. The Group anticipates these risks by recruiting experienced candidates capable of filling positions left vacant, and through a continuous drive to transfer skills.

The mission of the human resources staff is to limit these risks through five main policies: 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 flexibility and adaptability of the Group's organization to changes in its markets by continuously reshaping its organization. The risks associated with these challenges are amplified in the current macroeconomic environment.

The Group places a high premium on compliance with existing labor regulations wherever it operates. It regularly audits its subsidiaries to ensure they are compliant with local laws and regulations. Its active policy of transparency in the disclosure of information and in managing its labor relations is one means allowing the Group to create a positive social climate, enabling the Company to underpin its development and deal constructively with economic uncertainty.

Significant efforts have been made to identify and evaluate risks, thanks to targeted action plans to ensure that all Company activities are carried out safely, in particular in R&D and manufacturing activities as well

as maintenance interventions. In France, this process is overseen by a Safety committee and implemented by a safety engineer, with the active involvement of management, via accident prevention campaigns, training, and concrete means to increase safety. For example, the Company has implemented computer-assisted goods handling aids in all parts of the manufacturing shop; it has banned the use of chemicals that present a cancer hazard; and it has installed automatic defibrillators at its Paris and Bordeaux-Cestas (France) sites and provides training in their use.
Thanks to its accident prevention policy, Lectra has achieved a very good record, with accident frequency and severity rates respectively eight and five times below national indicators in France.

4.7. Credit Risks

The Group is exposed to credit risks in the event of customer insolvency or default. This risk is heightened in the context of the economic crisis and 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. It notably manages this risk via a range of customer risk management procedures, which include preventively analyzing its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears.
Sales 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.
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 4.4 above).
Finally, the Group applies a very strict policy in the recognition of impairment on accounts receivable deemed at risk.

4.8. 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 company's operations.
In order to reduce these risks, the Group has placed a manager in charge of maintaining the security of information systems, of mechanisms, as well as of its anti-cybercrime and security policy.
The Group has put in place a business continuity plan incorporating resources designed to guarantee a coherent and rapid restoration of critical data and applications in the event of an incident.
Foremost among these means is the replication of systems in real time of data and systems in two remote data centers guaranteeing business continuity in the event of 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 Internet connection and a private network with all subsidiaries.
In addition, 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. These joint exercises allow it to maintain a high-level control over the security of its information system.
The 2017-2019 roadmap calls for the progressive ramp-up of the Company's SaaS offer. This will entail additional risks for the Group, inherent in these online services. In particular, these include the risk of a long interruption in the provision of services, or the loss, theft or destruction of customers' data. These risks are taken into account in the action plan comprised within the Group's information systems security policy.

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.

4.9. Liquidity Risks

The risk that the Group may have to contend with a short-term cash shortage is close to zero.
The Company is debt free. Cash and cash equivalents (€75.7 million) represent a substantial and sufficient liquidity reserve.

4.10. Counterparty Risks

The Group's exposure to counterparty risks arises 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.

4.11. Insurance and Risk Cover

The parent company, Lectra SA, oversees the management of risks and the writing of insurance programs for the Group as a whole. Lectra SA's Legal Affairs department formulates Group policy with respect to the evaluation of its risks and their coverage, and coordinates the administration of insurance contracts and claims with respect to legal liability, property damage, and damages and losses incurred during transportation.
The Group exercises its judgment when assessing risks incurred in the conduct of its business, the utility or otherwise of writing insurance cover with an outside insurer and the cost of the guarantees provided. It may therefore decide to review this policy at any time.
The Group works through international brokers whose network has the capacity to assist it throughout its different geographies. Insurance programs are written with reputable insurers of sufficient size and capacity to provide cover and administer claims in all countries. At regular intervals, when programs come due for renewal, the Group invites competing insurance companies to submit bids in order to secure the best possible terms and conditions.
The guarantees provided by these programs are 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 Lectra, and depending on insurance companies' proposals.
The Group has taken the following insurance coverage:
- legal liability, business continuity, post-delivery, and professional liability (Errors and Omissions in the United States);
- Directors and officers liability;
- property damage;
- transported goods.

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 exposed to the risk of injury to its customers' employees while operating certain items of equipment supplied by it. It therefore takes all appropriate steps to ensure that these meet the strictest personnel safety standards—a major and constant concern of the Group; however, there is no such thing as zero risk. The Group's product liability insurance contract covers it against adverse monetary consequences arising from claims that could result from its sales of systems or provision of services.
The property damage program provides for payment of claims for material damage to buildings or physical assets in accordance with the declared value of each of its sites worldwide, which the Group reports annually. The program comprises additional guarantees to finance the continuity or reorganization of activity following a loss event. Special emphasis is placed on protecting the Bordeaux-Cestas (France) site, which houses research and development and production activities as well as critical services for the Group as a whole. The program

notably comprises "business continuity" cover against financial loss in the event of a major accident affecting the Bordeaux-Cestas site and jeopardizing the continuity of all or part of the Group's business. This program is backed up by risk prevention measures at this site, comprising an annual risk-reduction action plan based on the findings of the Group insurers' experts.

5. OFF-BALANCE SHEET ITEMS

Off-Balance Sheet Commitments Relating to the Group Financing

The parent company, Lectra SA, provided a total of €4.3 million at December 31, 2016 (€2.9 million at December 31, 2015) in sureties to banks, mainly to guarantee loans made by the latter to the company's subsidiaries and in guarantees given to customers or to lessors. These sureties were previously authorized by the Board of Directors, as required under article L. 225-34 al. 4 of the French Commercial Code.
Exchange risk hedging instruments of balance sheet positions at December 31, 2016 were comprised of forward sales or purchases of foreign currencies (mainly US dollars, British pounds and Canadian dollars) for a net total equivalent value (sales minus purchases) of €8.5 million (€4.7 million at December 31, 2015).

Off-Balance Sheet Commitments Relating to Operating Activities

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

6. APPROPRIATION OF EARNINGS

In its report on fiscal year 2012, the Board stated that, barring further changes to the taxation of dividends in France, the total dividend was expected to represent a payout ratio of around 33% of net income (excluding non-recurring items), the remaining 67% serving to finance the Company's growth internally. Exceptionally, this ratio could rise to or exceed 50% until the investments for the future have produced their impact in full, insofar as they are already taken into account in the computation of net income and free cash flow.
The Board of Directors has proposed to increase the dividend to €0.35 per share (+17%), in respect of fiscal 2016. The gross dividend represents a payout ratio of 41% of 2016 net income and a yield of 1.9% based on the December 31, 2016 closing share price.
Previous dividends were €0.30 per share in respect of fiscal 2015, €0.25 per share in respect of fiscal 2014 and €0.22 in respect of fiscal 2013.
Subject to approval by the Shareholders' Meeting of April 28, 2017, the dividend will be made payable on May 5, 2017.

7. SHARE CAPITAL—OWNERSHIP—SHARE PRICE PERFORMANCE

Change in Share Capital

At December 31, 2016, the share capital totaled €31,247,554, divided into 31,247,554 shares with a par value of €1.00.
Share capital has increased by €461,155 (with a total share premium of €1,893,326) due to the creation of 461,155 shares since January 1, 2016, resulting from the exercise of stock options.

Main Shareholders

On April 8, 2016, and again in a second disclosure on April 24, Allianz SE (Germany) reported that, acting through French companies controlled by it, it had increased its shareholding above the threshold of 5% of the Company's capital stock and voting rights, and that it held 5.10% of the capital stock and 5.05% of the voting rights.

On November 23, 2016, Kempen Capital Management (Netherlands) reported that its fund Kempen Oranje Participaties, which it manages, had increased its shareholding above the thresholds of 5% of the company's capital stock and voting rights, and that, at that date, it held 5.07% of the capital stock and 5.01% of the voting rights.
Finally, Delta Lloyd Asset Management NV (Netherlands), acting on behalf of investment funds that it manages, notified the Company on February 15, 2017 that on February 10, 2017 it had reduced its shareholding below the thresholds of 5% of the Company's capital stock and voting rights, and that it held 4.91% of the capital stock and 4.86% of the voting rights.
No other crossing of statutory thresholds has been notified to the Company since January 1, 2016.
At the date of publication of this report, and to the Company's knowledge:
– André Harari and Daniel Harari together hold 35.6% of the capital and 35.2% of the voting rights;
– Kempen Oranje Participaties (Netherlands), and Allianz SE (Germany) through French companies it controls, 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, 2016, the Company held less than 0.1% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement contracted with Exane BNP Paribas.
All of the information required under article L. 225-211 of the French Commercial Code concerning purchases and sales by the Company of its own shares is presented in chapter 10 below.

Granting of Stock Options—Potential Capital Stock

The Extraordinary General Shareholders Meeting of April 30, 2014 authorized the creation of a new stock option plan for a maximum of 1.8 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 first resolution, and automatically terminated the authority given to it by the Extraordinary Shareholders' Meeting of April 27, 2012. 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 30, 2017. The Board of Directors considers that the number of options available to it is sufficient for the granting of options in 2017, as planned for its meeting of June 8, 2017. The Company plans to request a renewal of its authority to grant new options on the occasion of the Meeting of Shareholders called to approve the financial statements for fiscal year 2017.
No subsidiary of Lectra has opened a stock option or stock purchase plan.

2016 Stock Option Plan

On June 9, 2016, the Board of Directors granted a maximum number of 533,098 options, at an exercise price of €14.50 per share to 110 beneficiaries, in respect of the fulfilment of their annual performance targets set for 2016. The definitive number of options is calculated with reference to the percentage fulfilment of targets set for each beneficiary for 2016. The options representing the difference between those initially granted and those actually granted as a result of actual performance by the beneficiaries are cancelled and placed at the disposal of the Board of Directors.

At the date of this report, the calculations of actual performance in 2016, based on the Group's consolidated financial statements, have been finalized for all the beneficiaries. In light of this performance, 208,395 options have thus been cancelled. Moreover, 1,242 options have ceased to be valid due to the departure of one beneficiary in 2016. As a result, the number of options at December 31, 2016 has been reduced to 323,461 and the number of beneficiaries to 109.
The Board of Directors of June 9, 2016 also granted 75,567 options at an exercise price of €14.50 per option to 109 beneficiaries, of which 31,878 options to 59 beneficiaries of a stock option plan unrelated to their performance in 2016 and 43,689 options to the 50 winners of the 2015 Lectra Worldwide Championship (14 winners of the 2015 Lectra Worldwide Championship being beneficiaries of other options also granted in 2016). On this granting of 75,567 options, 1,242 options ceased to be valid due to the departure of three beneficiaries in 2016. In total, the Board of Directors thus granted a maximum of 608,665 options to 205 beneficiaries, reduced to 397,786 options and 201 beneficiaries, in respect of the 2016 stock option plan, at December 31, 2016.
All of the options granted concerned Group employees. André Harari and Daniel Harari, the only two Company Officers, as defined by the AFEP-MEDEF Code in its revised version of November 24, 2016, have held no stock options since 2000.
The right to exercise these options vests on a single occasion at the end of the four-year period starting on January 1, 2016, and is conditional upon the beneficiary's presence in the Group at December 31, 2019 (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). In the event of the departure of a beneficiary before this date, all options that were granted to the beneficiary cease to be valid.
The options are valid for a period of eight years from the date of granting.

Options Outstanding at December 31, 2016

461,155 options granted under the different stock option plans outstanding at December 31, 2015 were exercised in 2016 and 26,564 options have ceased to be valid following the departure of their beneficiaries.
In total, of the 316 persons holding options at December 31, 2016, 270 employees hold 1,731,219 options, and 46 former employees still hold 32,294 options (respective figures at December 31, 2015 were: 275, 227, and 48).
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, 2015, the Company's capital (at par value) would increase by a total of €1,763,513, associated with a total additional paid-in capital of €14,333,620.
At December 31, 2016, 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 33,011,067, consisting of:
- capital stock: 31,247,554 shares;
- stock options: 1,763,513 shares.

Note 15.5 to the consolidated financial statements contain full details of the vesting conditions, exercise prices, and exercise dates and conditions of all outstanding stock options at December 31, 2016.
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, 2016, was €18.02, up 49% compared with December 31, 2015 (€12.10). During the year, it reached a low of €10.76 on February 11 and a high of €18.32 on December 29. The CAC 40 index and the CAC Mid & Small index rose 5% and 7% respectively in 2016.
According to Euronext statistics, the number of shares traded on Euronext (4.8 million) fell by 45%, and trading volumes (€69.1 million) were down 32% compared with 2015. These figures do not include trading on any other trading platform; if the latter is included, the total trading volume represents almost twice the volume recorded on Euronext, according to Company estimates.
In its press release of April 4, 2016, Lectra confirmed that it is eligible for inclusion in French SME ("PEA-PME") equity savings plans qualifying for tax relief in France dedicated to investments in European small- and mid-cap companies.

8. CORPORATE GOVERNANCE—CORPORATE SOCIAL, ENVIRONMENTAL AND SOCIETAL RESPONSILIBITY POLICY

The Company aims to pursue the best corporate governance practices.
The Board of Directors has formally adhered since 2008 to the AFEP-MEDEF Corporate Governance Code of Listed Companies, the most recently amended version of which was published on November 24, 2016 (hereafter referred to as the "AFEP-MEDEF Code"), and has ensured its rigorous application. In particular, the Board of Directors stated on November 28, 2008, that the Company had decided to adopt the recommendations issued by the AFEP-MEDEF Code as the code of corporate governance to which it shall voluntarily refer in matters of compensation of its executive and non-executive Officers (*dirigeants mandataires sociaux,* as defined by the AFEP-MEDEF Code), and to comply with its provisions or, should any of these provisions be deemed inappropriate with respect to the specific circumstances of the Company, to give its reasons for non-compliance, as prescribed in article L. 225-37 of the French Commercial Code.

Company Officers' Compensation

Policy Governing the Compensation of Company Officers

This subject is discussed in detail in the report of the Chairman on Internal Control Procedures and Risk Management and on Corporate Governance appended to this report in chapter 3 "Principles and rules adopted by the Board of Directors to determine the compensation and benefits in kind granted to Company Officers and other Directors".
The sole Company Officers are André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer.
They are not under any employment contract to the Company and they are not the beneficiaries of any special arrangement or specific benefits concerning deferred compensation, severance compensation, or pension liabilities committing the Company to pay any form of indemnity or benefit in the event of termination of their functions, or at the time of their retirement, or more generally subsequent to the termination of their functions.
The compensation policy as decided by the Board of Directors has been strictly identical for the Chairman and for the Chief Executive Officer since the separation of their functions in 2002, as was previously the case.
In particular, it takes into account the particularly heavy workload and the extent of the specific duties of the Chairman of the Board of Directors, who devotes the necessary time to the performance of those duties. The specific duties of the Chairman of the Board of Directors are set out in the internal rules of the Board in chapter 1.5 "Chairman's specific duties". Consistent with the prescriptions of these Internal Rules and Procedures, he holds no directorship in other companies.
Acting in concert, the Chairman and the Chief Executive Officer are jointly accountable for the outcome of the strategy pursued by the Group under their leadership.

Their significant stake in the capital ensures their interests are strongly aligned with those of the shareholders and the financial performance of the Group. Their compensation comprises a fixed portion and an annual variable portion. It does not include any multi-year variable portion, or exceptional compensation, any form of bonuses, stock options, performance-based shares or other long-term component of compensation, or any indemnity linked to the commencement or termination of their functions, nor any form of supplementary retirement plan.

Each year the Board of Directors determines the amount of target-based total compensation.

The fixed portion is equal to 40% and the variable portion 60% of total compensation conditional upon fulfilment of annual targets. 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.

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.

Total compensation may therefore vary depending on performance, ranging from 40% to 160% of the total target-based compensation.

Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent 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 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 (the share of variable compensation for three of the members of the Executive Committee is equal to 35% of their total target-based compensation; the corresponding share for the fourth member is 30%). These criteria also apply to certain managers reporting to them, with the same specific features.

This policy is clear, consistent with the long-term strategy, objectives and challenges of the Group and directly linked to its performance. It reflects the respective experience, competencies and responsibilities of the two Officers. It has proved its worth both in tough years and in years of record profits. Thus, over the ten-year period from 2007 to 2016, the actual compensation of the Chairman and the Chief Executive Officer has averaged 90% of the amount tied to fulfilment of the annual targets, the percentage ranging between 56% and 160%.

In addition, the two Company Officers receive the Directors' fees allocated to members of the Board of Directors, and enjoy the use of Company cars.

2016 Compensation

This amount of target-based total compensation had remained unchanged at €475,000 for the eight fiscal years 2005 through 2012. The fixed portion had been unchanged since 2003 (€190,000).

At its meeting on February 12, 2013, the Board had set the total target-based compensation of the Chairman of the Board of Directors and the Chief Executive Officer for the three-year period from 2013 through 2015, over three years progressively raising their total compensation to €600,000 conditional upon fulfilment of annual targets, i.e. to: €520,000 in 2013, €560,000 in 2014, and €600,000 in 2015.

At the motion of the Chairman of the Board of Directors and the Chief Executive Officer, the Board of Directors has maintained their total compensation for 2016 unchanged relative to 2015, the fixed portion continuing to represent 40% of total compensation conditional upon fulfilment of annual targets (i.e. €240,000) and the variable portion 60% (i.e. €360,000).
Total compensation may therefore vary depending on performance, ranging from 40% (i.e. €240,000) to 160% (i.e. €960,000) of the total target-based compensation.
At its meeting of February 11, 2016, the Board maintained unchanged for 2016 the four performance criteria used to determine their variable compensation as well as their relative weighting, as set in 2015 and 2014 (these criteria have applied since 2011, albeit with a change in 2014 of their relative weighting aimed at placing special emphasis on fulfilment of the Company's strategy of profitable sales activity growth), namely: (i) the criterion measuring the contributive value of growth in sales activity (accounting for 50%); (ii) consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 30%); (iii) consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after restatement of certain items (accounting for 10%); and (iv) a criterion measuring the contributive value of recurring contracts (accounting for 10%). The corresponding calculations eliminate the impact of actual currency variations relative to those used to set the targets.

Application of performance-related criteria of annual variable compensation for the Company Officers in 2016

Criteria[1]		Weighting	Minimum as percentage of target	Maximum as percentage of target	Percentage achieved
100% quantifiable targets	Weighted contribution of growth in sales activity	50%	0%	200%	73%
	Consolidated income before tax[2]	30%	0%	200%	110%
	Consolidated free cash flow[3]	10%	0%	200%	70%
	Weighted contributive value of recurring contracts	10%	0%	200%	95%
	Total quantifiable targets	100%	0%	200%	86%
0% qualitative objectives	Total qualitative objectives	–	–	–	–
Total actual compensation as a percentage of compensation conditional on fulfilment of annual targets					92%

(1) The corresponding calculations eliminate the impact of currency fluctuations.
(2) Before tax, excluding financial and non-recurring items.
(3) Excluding financial income and expenses and non-recurring items, income tax, and after restatement of certain items.

In 2016, the percentage obtained for each of the four criteria is as follows: (i) 73% for the contributive value of growth in sales activity (42% in 2015); (ii) 110% for consolidated income before tax (77% in 2015); (iii) 70% for consolidated free cash flow (101% in 2015); and (iv) 95% for the contributive value of recurring contracts (80% in 2015).

In total, the percentage obtained for the variable portion of compensation represented 86% of the amount tied tothe fulfilment of annual targets (62% in 2015). Consequently, the total actual compensation due in respect of 2016 was 92% of the target-based compensation (77% in 2015).

2017-2019 Compensation

The compensation of the Chairman and of the Chief Executive Officer was reviewed and set by the Board of Directors at its meeting on February 9, 2017 for the three-year period from 2017 through 2019, corresponding to the new strategic roadmap. The principles applied previously remain unchanged.

The Board of Directors decided to increase the total compensation of the Chairman of the Board of Directors and Chief Executive Officer, conditional upon fulfilment of annual targets, to €630,000 (+5% relative to 2016), for each of the three years 2017, 2018 and 2019.

The fixed portion of this compensation has been increased to €252,000 (+5% relative to 2016) and the variable portion to €378,000 (+5% relative to 2016). Thus, the fixed portion will continue to represent 40% of total compensation conditional upon fulfilment of annual targets (i.e. €252,000) and the variable portion 60% (i.e. €378,000). Total compensation therefore ranges between 40% (i.e. €252,000) and 160% (i.e. €1,008,000) of compensation conditional upon fulfilment of annual targets.

This compensation takes into account the new strategic objectives set, challenges and issues for this period, aimed at growing the size of the Group, strengthening its global leadership and competitiveness, increasing its shareholders' equity thanks to free cash flow generated, and finally, bolstering its key operating fundamentals and expanding sales, earnings and operating margin, in persistently tough macroeconomic conditions.

The increases are less than the cumulative increases (of between 6% and 8%) in the compensation of the top fifty Group managers and of all French staff over the four-year period 2013-2016.

At its meeting of February 9, 2017, the Board of Directors maintained the four performance criteria of prior years, together with their relative weighting, for the purpose of determining variable compensation for 2017 (see paragraph 2016 Compensation above).

Details of Individual Compensation of Each Company Officer

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

	2016			2015		
(in euros)	Compensation assuming fulfilment of annual targets	Actual compensation earned in respect of the fiscal year	% Actual compensation / Compensation assuming fulfilment of annual targets	Compensation assuming fulfilment of annual targets	Actual compensation earned in respect of the fiscal year	% Actual compensation / Compensation assuming fulfilment of annual targets
André Harari, Chairman of the Board of Directors						
Fixed compensation	240,000	240,000	100%	240,000	240,000	100%
Variable compensation	360,000	310,172	86%	360,000	224,000	62%
Total	**600,000**	**550,172**	**92%**	**600,000**	**464,000**	**77%**
Daniel Harari, Chief Executive Officer						
Fixed compensation	240,000	240,000	100%	240,000	240,000	100%
Variable compensation	360,000	310,172	86%	360,000	224,000	62%
Total	**600,000**	**550,172**	**92%**	**600,000**	**464,000**	**77%**

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

	2016		2015	
(in euros)	Amounts earned in respect of the fiscal year[1]	Amounts paid in the year[1]	Amounts earned in respect of the fiscal year[1]	Amounts paid in the year[1]
André Harari, Chairman of the Board of Directors				
Fixed compensation	240,000	240,000	240,000	240,000
Variable compensation	310,172	224,000	224,000	294,445
Directors' fees	40,000	40,000	40,000	40,000
Benefits in kind[2]	10,036	10,036	9,310	9,310
Total	**600,208**	**514,036**	**513,310**	**583,755**
Daniel Harari, Chief Executive Officer				
Fixed compensation	240,000	240,000	240,000	240,000
Variable compensation	310,172	224,000	224,000	294,445
Directors' fees	40,000	40,000	40,000	40,000
Benefits in kind[2]	9,530	9,530	12,200	12,200
Total	**599,702**	**513,530**	**516,200**	**586,645**

(1) Differences between amounts earned in respect of 2016 and 2015 and the amounts paid in 2016 and 2015 stem from lags in the payment of this compensation. Allowance for variable compensation due in respect of a given fiscal year is made in the financial statements of the said fiscal year, the final amount being calculated after closure of the annual accounts and paid in the following fiscal year.
(2) The amounts shown for benefits in kind reflect the value for tax purposes of the use of company cars.

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

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.

	André Harari, Chairman of the Board of Directors	Daniel Harari, Chief Executive Officer
Employment contract	No	No
Supplementary pension scheme	No	No
Indemnifications or benefits due as a result of termination or change of position	No	No
Indemnifications relating to a non-competition clause	No	No

Aggregate and Individual Attendance Fees Paid to Directors and Rules Governing Their Distribution

Given the increase in the Board's membership from four to five and in light of the new rules set for the allocation of the Directors' fees, the General Meeting of Shareholders on April 29, 2016 has increased the total amount of Directors' fees to €230,000 for fiscal year 2016 and future years, until decided otherwise by the Shareholders' Meeting.

As stated in last year's report, the Board has complied with the corresponding recommendation of the AFEP-MEDEF Code, starting in fiscal year 2016, by:

– 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 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's specialized Committees;

– apportioning an additional amount to the Chairs of the Audit Committee and the Compensation Committee (André Harari, Chairman of the Strategic Committee, will receive no additional compensation in respect of this chairmanship).

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;

– €9,000 for attendance by the three independent Directors at meetings of the three Board Committees, plus €1,500 for the Chairs of the Audit Committee and the Compensation Committee.

The variable portion actually apportioned to each Director (62.5% 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.

However, the following allocations were made to Nathalie Rossiensky in respect of 2016, following her appointment on April 29, 2016:

– as a member of the Board of Directors, the total fixed portion of Director's fee of €15,000 and a variable portion consisting of the fraction corresponding to the number of meetings attended by her divided by the total number of Board meetings held in 2016, multiplied by €25,000;

– as a member of the Board Committees, the total fixed portion of Director's fee of €1,125 and a variable portion consisting of the fraction corresponding to the number of meetings of the Audit, Compensation and Strategic Committees attended by her divided by the total number of meetings of each of these Committees held in 2016, multiplied by €1,875.

The other two independent Directors attended all of the meetings of the Board of Directors and the three Committees. Consequently, the Directors' fees actually allocated to them are equal to the corresponding maximum.

The Chairman of the Board of Directors and the Chief Executive Officer having also attended all of the meetings of the Board, the Directors' fees actually allocated to them are equal to the corresponding maximum.

As a result of the foregoing, the total amount of €230,000 was in fact reduced to €216,473, allocated as follows:

(in euros)	André Harari Chairman of the Board of Directors	Daniel Harari Chief Executive Officer	Anne Binder Independent Director	Bernard Jourdan Independent Director	Nathalie Rossiensky Independent Director	Total 2016 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	14,286	114,286
sub/total	**40,000**	**40,000**	**40,000**	**40,000**	**29,286**	**189,286**
Audit Committee						
Fixed portion			1,125	1,125	1,125	3,375
Variable portion			1,875	1,875	750	4,500
Chair of the Committee				1,500		1,500
sub/total			**3,000**	**4,500**	**1,875**	**9,375**
Compensation Committee						
Fixed portion			1,125	1,125	1,125	3,375
Variable portion			1,875	1,875	938	4,688
Chair of the Committee				1,500		1,500
sub/total			**3,000**	**4,500**	**2,063**	**9,563**
Strategic Committee						
Fixed portion			1,125	1,125	1,125	3,375
Variable portion			1,875	1,875	1,125	4,875
sub/total			**3,000**	**3,000**	**2,250**	**8,250**
Total	**40,000**	**40,000**	**49,000**	**52,000**	**35,473**	**216,473**

Policy Governing the Granting of Stock Options to all Beneficiaries and Specific Policy Governing the Granting of Stock Options to Company Officers

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

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

Consultation of Shareholders on Compensation of Company Officers in Respect of Fiscal Year 2016

As called for in the November 24, 2016 amended version of the AFEP-MEDEF Code, the components of the individual compensation due to or awarded to Officers in respect of the fiscal year elapsed are subject to a mandatory vote of the shareholders.

In the event of a negative opinion, the Board of Directors must meet within a reasonable period and examine the reasons for this vote and the expectations expressed by the shareholders. Following this consultation and on the recommendations of the Compensation Committee, the Board will rule on the modifications to be made to the compensation due or awarded in respect of the closed financial year or the future compensation policy. It must then immediately publish information on the Company's website indicating how it has responded to the vote at the

Shareholders' Meeting and report on this at the next Shareholders' Meeting.
Shareholders are therefore invited to express their opinion on the compensation of the Company's Chairman of the Board and the Chief Executive Officer in respect of the fiscal year ended December 31, 2016.
Company Officers' compensation does not contain any multi-year variable portion or exceptional compensation, stock options, performance-based shares or other long-term component of compensation, indemnity relating to the taking up or termination of their functions, or supplementary retirement plan.
These components of compensation therefore do not apply in the case of the compensation of the Chairman of the Board of Directors and of the Chief Executive Officer of the Company, which consequently comprise only the following components:
– the fixed portion;
– the annual variable portion together with the targets contributing to its determination;
– any other benefits.
Details of these components are provided in the paragraphs on "Policy Governing the Compensation of Company Officers", "2016 Compensation", and "Details of Individual Compensation Paid to Each Officer", above.
This consultation of shareholders is the subject of the seventh and eighth resolutions of the Shareholders' Meeting of April 28, 2017. It is planned to conduct this shareholder consultation for the last time on the occasion of this General Meeting of Shareholders. It will then be replaced by the procedure provided for under the December 9, 2016 Sapin II Act, which is described in the next section.

Ex-Ante and Ex-Post Shareholder Approval of Company Officers' Compensation in Respect of the Fiscal Year Ended December 31, 2017

Article 161 of the December 9, 2016 Sapin II Act (codified in article L. 225-37-2 of the French Commercial Code), henceforward requires a binding annual *ex ante* vote by the General Meeting of Shareholders 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. The Act further requires a binding annual ex-post vote on the amount of compensation granted to the Company Officers in respect of the prior year. This vote must take place at least once a year, whenever the approved principles and criteria are modified, and at each renewal of a Company Officer's appointment.
The annual ex-ante vote applies as from the General Meeting of April 28, 2017, and the corresponding ex-post vote as from the General Meeting called to approve the financial statements for fiscal year 2017.
In the event of failure of the ex-ante vote, the principles and criteria previously approved by the General 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 components of variable or exceptional component cannot be paid to the person concerned.
Shareholders are therefore invited to vote on the principles and criteria used to determine the total compensation granted to the Chairman of the Board of Directors and to the Chief Executive Officer, as set forth in the paragraphs "Policy Governing the Compensation of Company Officers" and "Compensation for 2017-2019" above.
The ex ante consultation of shareholders on compensation in respect of fiscal year 2017 is the subject of the ninth and tenth resolutions of the General Meeting of April 28, 2017.

Appointments and Other Directorships Held by Directors in the Year Under Review

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

a member of the Board of Directors of Lectra USA Inc., a direct subsidiary of Lectra SA in the United States. Anne Binder is member of the Board of Directors of Oceasoft and Senior Advisor of Tikehau. She is also member of the Board of Directors of the French National Chamber of Financial Investment Advisors. These positions are held in France.

Bernard Jourdan holds no outside Directorship. Nathalie Rossiensky is also member of the Board of Directors of three family *Sicav* (collective investment schemes) within the scope of her professional duties.

Transactions Subject to Article 19 of the European Market Abuse Regulation 537/2014 of April 16, 2014 (MAR)

The following transactions relating to Lectra's shares, as referred to in article 19 European Market Abuse Regulation 537/2014 of April 16, 2014 were carried out in 2016 by the Directors on Euronext:

	Date	Number	Price (€)	Value (€)
Bernard Jourdan				
Purchase of shares	November 21, 2016	300	15.44	4,633
Purchase of shares	December 5, 2016	200	15.61	3,122
Purchase of shares	December 14, 2016	200	16.99	3,398
Nathalie Rossiensky				
Purchase of shares	November 9, 2016	300	15.71	4,713

Édouard Macquin, Jérôme Viala, Véronique Zoccoletto and Céline Choussy Bedouet (since July 1, 2016), who are members of the Executive Committee, are 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 as follows:

	Date	Number	Price (€)	Value (€)
Édouard Macquin				
Exercise of stock options	February 26, 2016	5,400	6.25	33,750
Sale of shares	February 26, 2016	5,400	12.88	69,537
Exercise of stock options	February 29, 2016	1,800	6.25	11,250
Sale of shares	February 29, 2016	1,800	12.79	23,020
Exercise of stock options	September 13, 2016	3,500	6.25	21,875
Sale of shares	September 13, 2016	3,500	15.70	54,937
Exercise of stock options	September 14, 2016	5,507	6.25	34,419
Sale of shares	September 14, 2016	5,507	15.51	85,439
Exercise of stock options	December 5, 2016	1,600	6.25	10,000
Sale of shares	December 5, 2016	1,600	15.57	24,919
Exercise of stock options	December 6, 2016	5,400	6.25	33,750
Sale of shares	December 6, 2016	5,400	15.46	83,487
Exercise of stock options	December 7, 2016	2,000	6.25	12,500
Sale of shares	December 7, 2016	2,000	15.55	31,090
Jérôme Viala				
Sale of shares	February 16, 2016	10,000	12.78	127,804
Sale of shares	February 17, 2016	7,761	13.27	103,011
Sale of shares	February 18, 2016	2,239	13.21	29,571
Sale of shares	February 22, 2016	4,000	13.30	53,207
Sale of shares	February 23, 2016	156	13.30	2,075
Sale of shares	March 7, 2016	766	12.91	9,889
Exercise of stock options	March 8, 2016	33,000	2.50	82,500
Exercise of stock options	March 8, 2016	32,500	2.50	81,250
Sale of shares	March 9, 2016	78	12.50	975
Exercise of stock options	March 21, 2016	24,710	2.50	61,775
Exercise of stock options	June 3, 2016	1,580	2.50	3,950
Sale of shares	June 3, 2016	1,580	14.16	22,372
Exercise of stock options	September 1, 2016	20,000	6.25	125,000
Sale of shares	September 1, 2016	20,000	15.78	315,553
Véronique Zoccoletto				
Exercise of stock options	August 18, 2016	12,500	6.25	78,125
Sale of shares	August 18, 2016	12,500	14.83	185,365
Exercise of stock options	August 19, 2016	5,500	6.25	34,375
Sale of shares	August 19, 2016	5,500	14.79	81,340
Sale of shares	September 13, 2016	2,245	15.81	35,484
Sale of shares	September 14, 2016	1,089	15.60	16,988
Sale of shares	September 15, 2016	4,500	15.52	69,858
Exercise of stock options	November 2, 2016	8,971	2.50	22,428

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

The Company complies with the financial disclosure obligations of companies listed on Euronext, which took effect on January 20, 2007. These obligations are spelled out in Title 2, Book II of the General Regulation of the AMF concerning periodic and continuous disclosure. The General Regulation defines regulated disclosure in the form of a list of reports and information to be disclosed by companies, together with rules governing its dissemination and storage. Lectra has recourse to the services of Nasdaq, 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, the regulated information is published on the Company's website.

Fees Paid to Group Auditors and Companies in Their Network

The Lectra Group booked, in 2016, a total of €817,000 in fees paid for the audit of the financial statements of all Group companies, including €443,000 to PricewaterhouseCoopers Audit, €293,000 to KPMG, and €81,000 to other auditors, excluding non-audit services. The corresponding charge recognized in 2015 was €797,000.

Total fees paid to the Group Statutory Auditors in respect of the audit of the financial statements and other services provided to subsidiaries by members of their networks for 2016 amounted to €878,000, including €567,000 to PricewaterhouseCoopers Audit and €311,000 to KPMG.

	PwC				KPMG			
	Amount		%		Amount		%	
(in thousands of euros)	2016	2015	2016	2015	2016	2015	2016	2015
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
Issuer (Lectra SA)	148	143	26%	23%	130	125	42%	40%
Fully-consolidated subsidiaries	295	312	52%	50%	163	128	52%	41%
Non-audit services								
Issuer (Lectra SA)	21	18	4%	3%	–	–	0%	0%
Fully-consolidated subsidiaries	–	–	0%	0%	–	–	0%	0%
Sub-total	**464**	**473**	**82%**	**77%**	**293**	**253**	**94%**	**82%**
Other services to consolidated entities								
Legal, tax and social reviews[1]	103	145	18%	23%	18	57	6%	18%
Sub-total	**103**	**145**	**18%**	**23%**	**18**	**57**	**6%**	**18%**
Total	**567**	**618**	**100%**	**100%**	**311**	**310**	**100%**	**100%**

(1) These missions mostly relate to tax compliance services provided by members of the network to foreign subsidiaries of the company.

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

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

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

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

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

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

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

f) agreements between shareholders that are known to the Company and that may entail restrictions on the transfer of shares and on the exercise of voting rights;

g) the rules governing the appointment and replacement of members of the Board of Directors and amendments to the Company bylaws;

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

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

j) agreements providing for the payment of indemnities to members of the Board of Directors or employees in the event of resignation or dismissal without genuine and serious cause, or if their employment is terminated by reason of a public tender offer.

Under present conditions, none of these items is liable to be of consequence in the event of a public tender offer for the shares of Lectra SA.

Corporate Social, Environmental and Societal Responsibility Policy

Disclosures required under the July 12, 2010 "Grenelle II" Act (law n°2010-788) are presented in a separate report (available in French only) appended to the Board of Directors' report submitted to the Annual Shareholders' Meeting on April 29, 2016.
The Company designated PricewaterhouseCoopers to verify disclosures in respect of fiscal 2016. Starting in fiscal 2017, this mission is assigned to KPMG.

Ethical Values and Core values—Anti-Discrimination Policy

Uncompromising ethical rigor in the conduct of its business activities, and respect for the individual are fundamental values of Lectra.
Lectra rejects all notion or practice of discrimination between people, notably on grounds of sex, age, handicap, ethnic origin, social origin, or nationality. This principle ensures fair treatment in terms of equal career opportunities and equal pay.
Diversity has been a fundamental feature of Company practice since its very beginning and extends well beyond barring discrimination of any sort. Lectra's teams operate in 36 countries and represent more than 50 nationalities. They work side by side every day, drawing enhanced creativity and vigor from their differences.
Lectra's strong corporate culture is built on five core values shared by all Lectra team members worldwide: entrepreneurship, leadership, innovation, excellence and customer care. Open-minded and dynamic, it emphasizes teamwork transcending geographic and cultural barriers, as well as a keen sense of individual responsibility. It has forged a company with a strong identity, attuned to the evolution of its customers, its markets, and their macroeconomic cycles.
Whenever possible, Lectra facilitates internal mobility, with appropriate support, in order to enrich its employees' know-how and preserve their employability.

Social Policy

The Group's ambition is to develop and consolidate its position as world leader. It forges long-term relationships with its customers and supports them in their development, through its integrated solutions combining software with CAD/CAM equipment and associated services to address their strategic challenges. To that end, it maintains a steady flow of investment in innovation and new technologies, and in the development of its human capital.

Its business worldwide depends primarily on the quality and expertise of its personnel, and its international marketing and services network, both global and local. The Group has consistently set a high priority on preserving its human resources and talent. It has kept a tight grip on its recruitment plans. Emphasis is also placed on monitoring individual performance. On this score, the Group closely reviews under-performing staff, providing suitably tailored support to help them progress and improve their results.

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

The Company's radical transformation was overhauled at the end of 2009 in order to prepare for the post-crisis period, and the process was accelerated with the launch of its €50 million transformation and investments for the future plan for the period 2011-2015. Its aim is to adapt the Group to the profound changes taking place in its geographical markets and market sectors; to strengthen its competitiveness and world leadership; to concentrate its resources on the most promising geographical markets and market sectors so as to fulfill its development potential; to reinforce and develop its marketing and sales organization; and, lastly, to bolster the Company's innovative capabilities and reinforce its research and development teams.

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

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

The second policy is to implement the projects necessary to optimize the organizations with the help of new working methods, and high-performance internal information systems.

Developing the Group's human capital is a policy priority, enabling it to achieve its strategic goals efficiently and durably, while making it more resilient and adaptable to market shifts and changing macroeconomic conditions.

Consistent with its strategy, ethics and values, Lectra has put in place a policy of fair compensation that seeks primarily to reward merit and performance.

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.

Economic Headcount

The Group's economic headcount at December 31, 2016 (number of active full-time equivalent persons) was 1,550 worldwide (1,517 at December 31, 2015). The Group's legal headcount is 1,596 (registered workforce).

Its customer relations teams (marketing, sales and services activities) account for 52% of the headcount; research and development 17%; production and logistics 10%; and administration and finance, human capital management, and information systems 21%.

42% of the headcount at December 31, 2016 have joined the Company in the past five years and 31% in the last three years.

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

The Group attaches particular importance to internal mobility for its employees. 98% of employees are on open-ended contracts. Fixed-term contracts apply mainly

to persons hired to replace staff on maternity or long-term leave.
As a transnational corporation, Lectra operates in a multicultural environment and shares its know-how with its customers in more than 100 countries via its own worldwide sales and services network, supplemented by agents or distributors in certain countries. Its workforce comprises more than 50 nationalities. This diversity is a major source of wealth and indisputably a key competitive advantage.
At the end of 2016, men represented 65% of the Group's total headcount; this percentage has been stable since 2012. They formed the majority of sales staff (79%), customer support (86%), manufacturing (78%) and R&D (80%) teams. Conversely, although women represented 35% of the total headcount, they were in the majority in other areas such as marketing (79%). Genders were more evenly split in the professional training and consulting services (59% men, 41% women) and in administration and finance, human resources, and information systems (35% men, 65% women).
Women accounted for 44% of recruitments in 2016 (39% over the past four years), which represents a higher percentage than that of the current headcount of women in the Group.
Finally, by region, Europe accounts for 69% of employees (including 49% in France and 20% in the rest of Europe), Asia-Pacific 15%, the Americas 11%, and the rest of the world 5%.

Training and Integration

Lectra invests heavily in training for its employees whose expertise is one of the Group's key strengths.
Hiring people with a wide diversity of profiles and skills development has been a priority, the aim being to match the skills and competencies of its teams as closely as possible to the strategy of the Group.
The creation of Lectra Academy, the Group's worldwide in-house training center, in Bordeaux-Cestas, in 2005, was one of a series of major initiatives forming part of a far-reaching permanent program. The five key challenges of this program are: to adapt and upgrade business-related professional skills and know-how; to bolster the Group's attractiveness to new job applicants around the world; to transmit Lectra's strong corporate culture in all its entities; to identify, develop, and retain talent; and to manage careers effectively.
Employees worldwide enjoy access to a broad array of training programs, at Bordeaux-Cestas, in the subsidiaries or by e-learning.
The Lectra Academy's team is fully dedicated to this task and works directly with the managers of each department and subsidiary, implementing training plans geared to the specific needs of the company's different businesses as well as to local circumstances. Group experts and outside instructors organize and run seminars in each of the Company's areas of competence.
Moreover, Lectra Academy organizes an induction seminar, "Lectra Together", for all new recruits on arrival in the Group. The seminar lasts between one and two weeks, depending on the profiles concerned, and managers provide follow-up coaching on their return from training.
A special effort is made to enrich the capabilities of all Group sales, marketing and consulting teams, as well asintegration and support for the large number of new recruits. The Group also continued to provide technical training for its other teams—R&D especially—in new technologies and methodologies, in Lectra's solutions offer, and in its customers' businesses.
Some subsidiaries benefit from intensive specific training to adapt to their changing markets and their relative importance in the Group's strategy, as in China and the United States, for example. Each session is then adapted to local needs and challenges and is led by the Group's best experts.
In 2016, the Group invested €3.2 million in training, representing 3% of total staff costs. 1,020 employees, or 64% of the total headcount, underwent at least one training course (78% in 2015).

Promoting, and Compliance With, the Fundamental Conventions of the International Labour Organization

Consistent with its ethics and core values, the Group strives to apply all of the provisions laid down in the fundamental conventions of the International Labour Organization, together with the applicable regulations in each country, and it demands its employees to 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, both internally and externally in dealing with its customers and partners. Similarly, it urges its subcontractors and suppliers to uphold the principles of eliminating illegal or forced and child labour, 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 child, forced or compulsory labour, or of discriminatory hiring practices over the past ten years. The Group is not aware of any violation by its subcontractors and foreign subsidiaries of the fundamental provisions of the International Labour Organization (ILO).

Environmental Disclosures

In view of their specific nature (design, production and distribution of software and CAD/CAM equipment, and related services), the Group's activities have very little impact on the environment.
As a result, the Company has no internal environmental management department and does not dedicate specific resources to reducing environmental hazards, nor to the introduction of an organization for dealing with accidental pollution liable to have consequences outside of the Company's premises. However, many employees have been made aware of environmental issues and incorporate these into their decisions. Environmental issues are taken into account in the design phase of products and services.
More generally, the Group's efforts with regard to the environment focus on three main aspects:
– eco-design of its CAD/CAM equipment, which seeks to reduce raw materials usage in its manufacture, as well as its weight and dimensions. Other goals include limiting the use of polluting or hazardous materials, reducing noise levels in machinery, and raising the share of recyclable products used. This notably entails compliance with a wide range of standards that have yet to become mandatory. This policy also seeks to reduce the equipment's energy consumption;
– products and services enabling the Group and its customers to reduce their CO_2 emissions, and consumption of energy and natural resources. This is notably the case for remote diagnostic systems (part of the Smart Services offer), which serve to maintain the performance and guarantee a very high level of availability in customers' software and CAD/CAM equipment without the need for technicians to visit customers' facilities.
Moreover, thanks to Lectra solutions, customers are able to reduce their consumption of raw materials (e.g. fabrics, leather, technical textiles and composite materials) in manufacturing, through the use of algorithms for optimum nesting, to limit waste and through the development of upstream cutting-error identification systems. The resulting reduction of raw materials consumption indirectly translates to a smaller energy footprint and lower energy CO_2 emissions;
– investing in infrastructure designed to preserve the environment and encouraging employees to adopt environmentally friendly practices and behaviors.
At its Bordeaux-Cestas facility, which is fully-owned, the Group has invested in energy-saving infrastructure to cut down on heating and lighting needs. It has also invested heavily in programs to dematerialize documents and virtualize its data servers, yielding substantial gains in paper and energy consumed.
Moreover, the Group has invested in high-performing, sophisticated videoconferencing systems equipping corporate headquarters and almost all subsidiaries worldwide. This allows virtual meetings to be held in excellent conditions offering extremely high picture and sound quality, interactivity and ease of document sharing. Group employees use these facilities abundantly and increasingly, significantly reducing the need for travel (by plane in the first place, given the worldwide locations of its teams) and resulting greenhouse gas emissions.
Finally, no provision is made nor is any guarantee recognized for environmental risks in its financial statements. It has never paid any compensation in execution of a court decision on environmental grounds, and has no knowledge of any violation by Lectra SA or any of its foreign subsidiaries of local environmental rules.

Subcontractors

The Group subcontracts the production of sub-assemblies of the CAD/CAM equipment it markets to a network of French, regional or national, and foreign companies, most of them located in the European Union.

Sub-assemblies are then assembled and tested at the Bordeaux-Cestas industrial facilities.
Other subcontracted activities are mainly confined to cleaning and maintenance of premises and green areas, Company cafeterias, and the packaging and transportation of equipment shipped throughout the world and a range of different services.
The Group has a longstanding policy of responsible procurement, notably through the promotion of local subcontracting, reducing the number of outside suppliers, streamlining its logistics so as to minimize its recourse to transportation and packaging, the use of recyclable materials with a lower carbon footprint, promoting recycling, instituting a responsible procurement charter between the company, its suppliers and subcontractors, and implementing contracts spelling out its social and environmental requirements.
The Group's purchasing processes are designed to strike a fair balance between competitiveness, quality of supplies purchases, and maintaining long-term relations with its subcontractors and suppliers. The Group encourages its subcontractors and suppliers to implement policies contributing to the conservation of natural resources, and to the reduction and elimination of their waste by means of solutions that respect the environment.

Relations Between the Group and Educational Institutions

The Group has chosen to focus its commitment on the educational sector, and more especially on training for the professionals of tomorrow. Through its policy of partnerships, it has forged strong links with educational institutions, providing support for a growing number of students throughout their studies.
Over many years, the Group has forged partnerships with more than 850 educational institutions based in 60 countries.
These partners mainly comprise:
- fashion schools and universities;
- schools of engineering, especially those specializing in textiles and computer sciences;
- fashion trade associations.

Different levels of partnership allow the Group to adapt the form and content of its actions to the specific characteristics of each institution (e.g. to the nature of their programs and the students' course requirements). Lectra offers these students access to its latest technologies and to the full extent of its expertise, so that instructors can incorporate these into their programs. All these partnerships form part of a long-term reciprocal commitment between the institution and Lectra.
The most comprehensive partnerships offer students opportunities to gain practical experience with technological innovations and with real-world business activities through seminars in which they benefit from the experience of the Group's best experts. Lectra also provides them with an exceptional medium and showcase for their final course projects, notably thanks to its international network and Internet website, which includes a special webpage reserved just for them. Lectra is increasingly working to build up this type of program, organizing competitions with schools to enable their students to present their work to the major players in the world of fashion. Group customers are invited to attend these events, giving them an opportunity to discover promising new talent. Finally, Lectra may offer internships and recruit students graduating from these institutions.
Following Shanghai in 2010, Bordeaux in 2011, London in 2012, Milan in 2013, and Paris in 2015, Lectra will be hosting an educational congress at Bordeaux-Cestas attended by teachers, department heads, and deans of fashion schools and colleges.
These partnerships represent a major investment by the Group, equivalent in value to more than 70,000 active software licenses, made available at no charge to professors and students.
At the same time, the Group works with the world's leading trade associations, such as the *Fédération française de la couture, du prêt-à-porter des couturiers et des créateurs de mode* (French *haute couture*, ready-to-wear and fashion designers' federation). It works closely with all players in the sector to better anticipate industry developments and help them remain highly competitive in an environment subject to the vagaries of a complex global economy and to the new challenges of the post-crisis economy.
In 2013, Lectra signed a three-year partnership with the Institute for Innovation and Competitiveness to establish

a Fashion and Technology Chair at ESCP Europe. This contract was renewed for three years in 2016. Inaugurated on February 6, 2014, this chair is intended to develop and transmit knowledge on the themes of innovation and of technologies in the fashion and luxury sectors, with a special focus on new business models emerging notably in Europe and China. It is also rethinking the use of technology in design and supply chain management, and devising responses to the challenges posed by the development of the digital era. The chair in "Fashion and Technology" sets the standard for research in innovation, technology for the fashion and the luxury industries, as well as serving as a focal point for meetings and discussions between business leaders, academics, policymakers and students at ESCP Europe. It contributes to the dissemination and promotion of its research findings via seminars and training for professionals in these industries.

Anti-Corruption Measures

The Group complies with the law and seeks scrupulously to operate with the utmost respect for business ethics and complete integrity. To that end it demands that its employees, industrial or business partners (suppliers, agents, distributors, etc.) and customers comply strictly with the regulations applicable to them, and it expects unimpeachable ethical behavior at all times on their part. In the case of business partners participating infrequently in the negotiation and signature of orders, this requirement is formalized in the contractual undertakings they give to Lectra. These include a guarantee of ethical behaviors and to refrain in all circumstances from utilizing monies paid to them by the Company to pursue illicit aims, in particular in violation of anti-corruption laws.
Concerning its sales teams, Lectra has for many years had in place a strict procedure for the governance, oversight and controls on the negotiation and signature of the contracts they enter into with its customers worldwide. This procedure is monitored and regularly scrutinized by the departments supervising its application, and is regularly updated.
At the same time, the internal control rules governing the commitment and scrutiny of expenditures are designed to prevent any possible misuse of payments and other corrupt practices.

Measures to Promote Human Rights

The entire Group seeks scrupulously 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.

9. RESEARCH AND DEVELOPMENT

Despite the economic crisis, the Group has continued to invest significantly in research and development. At December 31, 2016, the R&D headcount was 265 persons at December 31, 2016 (265 at December 31, 2015), including 252 in France and 13 in Spain. 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 €22.6 million in 2016, or 8.7% of revenues (€22.4 million and 9.4% in 2015). Net R&D expense, after deducting the subsidies and tax credits, amounted to €15.5 million (€14.3 million in 2015). These substantial investments (€188 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. AUTHORIZATION OF A NEW SHARE REPURCHASE PROGRAM

The Shareholders' Meeting of April 29, 2016 renewed the program in place since the Shareholders' Meeting of April 30, 2015 and granted authority to the Company to trade in its own shares for a period of eighteen months from the date of the said Meeting. The sole purpose of this program is to maintain a liquid market in the Company's shares by means of a Liquidity Agreement with an investment services provider, in compliance with the code of conduct of the *Association française des entreprises d'investissement* (AFEI, French Association of Investment Companies) or any other code of conduct recognized by the AMF.

Transactions by the Company on its Own Account and Share Cancelations

Since the Shareholders' Meeting of April 30, 2009, the Company has not been authorized to make any transactions to purchase or to sell Company shares on its own account, nor to cancel shares.
Within the framework of the new policy of optimizing the Company's shareholders' equity, described in the Company's new strategic roadmap for 2017-2019, the Board of Directors moves that the shareholders grant it authority to repurchase, if appropriate, the Company's own shares on its own behalf and to cancel Company shares purchased under the new share repurchase program proposed below. The Company previously utilized a similar program between 1999 and 2007. The corresponding authorities are the subject of the eleventh and twelfth resolutions proposed to the Shareholders' Meeting of April 28, 2017.

Liquidity Agreement

The Group has 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.

Under this Liquidity Agreement, from January 1 to December 31, 2016, the Company purchased 224,715 shares and sold 237,970 shares at an average price of €14.14 and €14.33 respectively.
Consequently, at December 31, 2016, the Company held 5,085 Lectra shares (or 0.02% of share capital), at a par value of €1.00, with an average purchase price of €17.96, entirely under the Liquidity Agreement, together with €0.5 million in cash and cash equivalents.
Additionally, Lectra may increase the resources allocated, if necessary, by contributing up to €1 million, with a maximum corresponding to the market value of 150,000 Lectra shares.

Renewal of the Share Repurchase Program

The Board of Directors has proposed to the Annual Shareholders' Meeting of April 28, 2017 to renew the share repurchase program pursuant to article L. 225-209 of the French Commercial Code, for a period of eighteen months from the date of the said Meeting.
Contrary to the previous programs, which were limited to maintaining a liquid market in the Company's shares, carried out by an investment services provider acting under a Liquidity Agreement compliant with the Charter of Ethics established by the AFEI or any other code of conduct approved by the AMF, the new program is concerned with the judicious management of the Company's shareholders' equity, the Company having reinforced its balance sheet and enjoying a comfortable cash position. The new program further addresses the financial strategy of the new 2017-2019 roadmap.
The aims of this program are:

a) 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 Charter of Ethics recognized by the AMF;

b) 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;

c) 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 and after and L. 225-197-1 and after of the French Commercial Code;

d) 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;

e) to cancel shares by reduction of the capital stock, in accordance with the first resolution of the Extraordinary Shareholders' Meeting of April 28, 2017 (twelfth resolution) and/or a subsequent resolution approved by an Extraordinary Meeting of Shareholders in the course of the repurchase program.

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 eleventh resolution before the General Meeting of Shareholders of April 28, 2017 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 General Meeting of Shareholders.

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 and, having regard to its existing holding of treasury shares, come to hold a number of treasury shares exceeding 10% of the capital stock (representing 3,126,287 shares at the date of this report), adjusted for transactions that may affect it subsequent to the date of the Ordinary Shareholders' Meeting, where appropriate.

Characteristics of Shares Concerned by the Repurchase Program

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

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

The Board of Directors has proposed the following terms:

– maximum purchase price: €30 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 General Shareholders' Meeting of April 29, 2016. It will have a duration of eighteen months from the date of the Shareholders' Meeting of April 28, 2017, i.e. until October 27, 2018 inclusive.

Share Cancelations

The Board of Directors has proposed that the Extraordinary General Meeting of Shareholders of April 28, 2017 grant authority to the Board of Directors, pursuant to article L. 225-209 of the French Commercial Code, to cancel, at its sole discretion and in one or more instalments, up to a ceiling of 10% of the capital stock, the 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 pursuant to the law and regulations, in proportion to the cancelations made. If this resolution is approved, it shall remain in force for twenty-four months from the date of this General Meeting, i.e. until April 27, 2019 inclusive.

11. POST-CLOSING EVENTS

No significant event has occurred since December 31, 2016.

12. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 28, 2017.
First, second, and third quarter earnings for 2017 will be published on April 27, July 27, and October 30, respectively, after the close of trading on Euronext.
Full-year earnings for 2017 will be published on February 12, 2018.

13. REPORT ON AUTHORITY TO INCREASE THE CAPITAL

Article L. 225-100 of the French Commercial Code, as amended by the Executive Order *(Ordonnance)* of June 24, 2004, requires that the Management Discussion and Analysis comprises a table summarizing the authorities and powers granted to the Board of Directors by the Shareholders' Meeting, with respect to capital increases in application of articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code, and their utilization by the Board of Directors in the course of the year. The table is attached to this report.
The Extraordinary Shareholders' Meeting of April 30, 2014 authorized the issuance of shares within the framework of a stock option plan for a period of thirty-eight months expiring on June 30, 2017 (see chapter 7). This authority automatically terminated the authority to issue shares within the framework of a stock option plan, decided by the Extraordinary Shareholders' Meeting of April 27, 2012.

14. BUSINESS TRENDS AND OUTLOOK

A Long-Term Vision

Continuing its focus on the long term, the new 2017-2019 roadmap is the first step in Lectra's development plans for the coming decade.

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 world, 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 launched 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, there is 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. The impact of this upscaling is reverberating across the entire production chain, from large global groups present in China to national automakers and suppliers. 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.

The impact of these four major trends is already perceptible on the world stage and is expected to be felt with growing strength, generating many challenges for Lectra's customers. To go on developing, bolster their competitive position and serve their customers and end-consumers, businesses need to speed their implementation of the vital technologies required to boost efficiency across the entire value chain. Growing demand for quality, for rapid responses, shorter time-to-market for products and the constant need to control costs are compelling businesses to deploy more collaborative, agile and efficient organizations and practices.

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 SaaS (Software as a Service, which refers to the sale of software as if it were a service) 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 force 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.

The expert knowledge of their customers' business deployed by Lectra's teams, their command of best practices in each industry, and their ability to accompany customers, is universally recognized wherever the Group operates. Lectra's capacity to combine machines, software and services, rather than merely juxtapose them, is a major asset to the Company as it supports its customers at increasingly strategic levels in their value chain.

With ten years' experience in the industrial Internet of things, combined with its expertise in software solutions 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*. It also creates a high entry barrier for competitors, still reliant on standard electronic boards. In total, over 3,000 machines are—or can be—connected across 2,000 production sites worldwide. As a result, Lectra delivers preventive and predictive maintenance by channeling enriched real-time information from its equipment in operations upstream to the Company's experts in its five international Call Centers.

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 revolutionary new cloud services, which Lectra started to develop in 2016 and plans to enrich over the next three years, and by adapting its equipment to Industry 4.0's 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 offer. 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.

Lectra plans to roll out its first cloud services progressively, starting in 2018.

A New Strategic Roadmap for 2017-2019

Developing the Business Model for Profitable, Long-Term Growth

The 2017-2019 strategic roadmap was framed to enable Lectra to consolidate its global leadership within this new context 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 the Company's top 5,000 customers or potential customers across the world, compared to 3,000 in the previous roadmap.

Its 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).

By implementing a SaaS business model, Lectra will afford customers greater flexibility through subscription or pay-per-use based access to its software offer. At the same time, the progressive migration of customers under software evolution and online services' contracts to SaaS offers with greater added-value will further boost software revenues. This process will have no material impact on the Company's cash position.

In addition to Industry 4.0 and SaaS offers, Lectra is counting on five other 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.

Macroeconomic Assumptions

The roadmap is based on macroeconomic forecasts known on the date of this report. These suggest a slight pick-up in global growth over the next 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 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 inherent in the four broad trends described above.

Financial Objectives

Taking into account expected macroeconomic conditions and the impact of developments pertaining to Lectra's business model over the next three years, the Company has 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.

They go together with maintaining a security ratio equal to or greater than 80%.

Given the possible uncertainties, notably economic and political, these objectives are subject to review over the three year period.

They will also be adjusted if the Company executes one or more targeted acquisitions.

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 expenditures will progressively rise, averaging around 10% of annual revenues over the period, compared to 9.4% for the previous roadmap.

Lectra believes it has the necessary resources to achieve its growth potential. Recruitment of sales and pre-sales consultants (currently 239 people) together with marketing, services, production and administrative positions, will from now on grow more slowly than revenues.

Moreover, Lectra's Bordeaux-Cestas industrial site already has the capacity, with another 50 or so employees, to increase its output by 50% with no major additional investment.

Use of Available Cash

The key to Lectra's business model is the generation of a high level of free cash flow and a structurally negative working capital requirement. Thanks to this virtuous circle, the Company's net and available cash stood at €75.7 million on December 31, 2016.

Lectra is determined 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 internally. The aim is to achieve a steadily rising dividend per share.

The Company will have sufficient cash on hand to finance targeted future acquisitions and could borrow up to half of its shareholders' equity if required in order to make a major acquisition.

Finally, subject to shareholder approval at the Ordinary Shareholders' Meeting on April 28, 2017, Lectra 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 Reports on the Roadmap

Each year, Lectra will include a status report on the implementation of the 2017-2019 roadmap in the Company's annual financial report.

2017 Outlook

The Company entered 2017 with stronger operating fundamentals than ever and an even stronger balance sheet.

2017 looks unpredictable once again. Persistent macroeconomic, geopolitical, political and currency uncertainties, together with increased risk, are liable

to continue to weigh heavily on businesses' investment decisions.
As in previous years, the main uncertainty concerns the level of orders for new systems and corresponding revenues. Visibility remains limited, calling for continued caution.
In these conditions, the Company is targeting 6% to 12% revenue growth and 7% to 15% growth in income from operations before non-recurring items, like-for-like.
The Company has not hedged its currency exposure for 2017.

The Company Remains Confident in its Medium-Term Growth Prospects

More than ever, the whole Company is focused on growing its sales activity.
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 23, 2017

SCHEDULE OF AUTHORITY TO INCREASE THE CAPITAL AT THE CLOSE OF FISCAL YEAR 2016

Note to chapter 13 of the Management Discussion

Type of issue	Authorization date	Maturity	Term	Maximum amount	Utilization
Stock options[1]	April 30, 2014	June 30, 2017	38 months	Capital: €1,800,000	Amount utilized: €899,407
Total authorized, unexpired and unutilized at December 31, 2016				**€900,593**	

(1) The General Shareholders Meeting of April 30, 2014 authorized the creation of a new stock option plan for a maximum of 1,800,000 shares with a par value of €1.00. The maximum amount and amounts utilized at December 31, 2016 are in par value of shares; 899,407 options had been utilized, and 900,593 remained at the Board's disposal (see note 15.5 to the consolidated financial statements).

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 present a true and fair view of the operations, results, and financial condition of the parent company and consolidated companies, together with a description of the main risks and uncertainties faced by the company."

Paris, February 23, 2017

Daniel Harari
Chief Executive Officer

Jérôme Viala
Chief Financial Officer

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

Dear Shareholders,

The French Financial Security Act of August 1, 2003, French Law n° 2008-649 of July 3, 2008 and Law n° 2011-103 of January 27, 2011 notably amended article L. 225-37 of the French Commercial Code. Consequently, the Chairman of the Board of Directors of a *société anonyme* is required:

– to append to the Management Discussion and Analysis of Financial Condition and Results of Operations a report giving details of the manner in which the Board's proceedings are prepared and organized, and on the Company's internal control and risk management procedures;

– to describe the principles and rules established by the Board regarding compensation and benefits of all kind of the Company's executive and non-executive Officers *(dirigeants mandataires sociaux);*

– when a company voluntarily refers to a code of corporate governance framed by representative organizations of corporations, to specify those provisions it has chosen not to apply and give its reasons for doing so ("comply or explain");

– to report on the application of the principle of balanced representation of men and women on the Board.

The Board of Directors of the Company has formally adhered since 2008 to the AFEP-MEDEF Corporate Governance Code of Listed Companies, the most recent update of which was published on November 24, 2016 (hereafter referred to as the "AFEP-MEDEF Code"), and has ensured its rigorous application. In particular, the Board of Directors stated on November 28, 2008, that the Company had decided to adopt the recommendations issued by the AFEP-MEDEF Code as the code of corporate governance to which the Company shall voluntarily refer in matters of compensation of its executive and non-executive Officers, and to comply with its provisions or, should any of these provisions be deemed inappropriate with respect to the specific circumstances of the Company, to explain the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code.

The Company Officers consist of the Chairman of the Board of Directors and the Chief Executive Officer. The AFEP-MEDEF Code is available for consultation at www.medef.com.

In particular, this year the Board of Directors has examined the third report of the High Committee on Corporate Governance established by the AFEP and the MEDEF and published on October 10, 2016, including its annual report on the application by SBF 120 companies of their Code of Corporate Governance. It also examined the revised version of the AFEP-MEDEF Code published on November 24, 2016 and its Application Guide published on December 21, 2016, as well as the 2016 report of the (French) Financial Markets Authority (*Autorité des Marchés Financiers* - AMF) on corporate governance and executive and non-executive Officers' compensation published on November 17, 2016, the AMF's study on Chairmen's reports on internal control and risk management procedures published on December 1, 2016, and finally the guides published by the AMF on October 26, 2016 on ongoing and periodic information.

The Internal Rules and Procedures of the Board of Directors were updated again on February 11, 2016 in order to take account of changes in the rules on corporate governance adopted by the Board of Directors in 2015 and on February 11, 2016, as mentioned in the Chairman's report of last year. It was further updated on February 9, and then on February 23, 2017 to reflect the new changes in the rules on corporate governance adopted by the Board since its last publication.

They can be consulted in full on the Company website, in French and English.

This Chairman's report was submitted to and discussed by the Audit Committee and approved by the Board of Directors at their meetings of February 23, 2017.

Changes made relative to the previous year are underlined as such.

1. CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF BOARD PROCEEDINGS

1.1. Role, Powers and Operation of the Board of Directors

The Board of Directors is responsible under French law for determining the overall strategy and directions of the Company's business and oversees their execution. Subject to powers expressly invested in the Shareholders' Meetings and within the limits of the corporate purpose, the Board may consider all issues pertaining to the proper functioning of the Company and decides on all matters concerning it.
The AFEP-MEDEF Code stipulates that the principal task of the Board of Directors is to define the Company's strategic orientation. It examines and decides on important operations, possibly after review by the Strategic Committee. The members of the Board of Directors are informed about market developments, the competitive environment and the most important issues at hand, including in the field of corporate social and environmental responsibility. It further stipulates that the Board should ensure that the shareholders and investors receive a relevant balanced and instructive information about the strategy, development model, the consideration of non-financial issues that are of significance to the corporation and its long-term outlook.
The Board scrutinizes and decides on major financial operations, economic matters or questions relating to human capital, and on strategic initiatives.
It appoints the Company Officers 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 in a single person), and oversees their management.
It decides on the compensation of the Company Officers. This mission cannot be delegated to the Compensation Committee.
It formulates the Company's policy on financial disclosure and ensures the quality of the information provided to shareholders and to the financial markets.

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 borrowings exceeding €5 million;
– 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.
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.

Separation of the Offices of Chairman and Chief Executive Officer

In 2002, the Board of Directors separated the functions of Chairman of the Board of Directors from those of Chief Executive Officer having regard to the specific role and respective experience of André Harari and Daniel Harari within the Group.
By working closely together in their respective positions, the Chairman and the Chief Executive Officer are able to maintain a high degree of cohesion and responsiveness in the management and administration of the Group. They also ensure that Lectra's strategy is formulated and implemented in accordance with its values and long-term interests.
The Chairman of the Board, who is a non-executive Officer as defined in the AFEP-MEDEF Code, is responsible for organizing and directing the work of the Board of Directors, reporting to the General Shareholders' Meeting, and more generally overseeing the proper functioning of the Company's management bodies. He ensures that directors are able to fulfill their duties. Where appropriate, he attends the meetings of the Committees established by the Board of Directors.
The Chairman represents the Board of Directors and, unless otherwise decided by the latter, has sole authority to speak in its name.

He manages relations between the Board of Directors and the shareholders of the Company, in consultation with the Chief Executive Officer.
The Board of Directors has not appointed a Deputy Chief Executive Officer *(Directeur Général Délégué)*.

Specific Missions of the Chairman of the Board

In addition to the missions prescribed in the French Commercial Code, the Chairman of the Board of Directors is invested with missions and specific duties that are spelled out in chapter 1.5 ("Specific Missions of the Chairman") of the Internal Rules and Procedures of the Board. These notably include:
– the Chairman of the Board of Directors chairs and runs the Strategic Committee;
– working closely with the Chief Executive Officer, he takes part in the definition of the strategic options and development themes deemed essential in order to build the Company's future, prepare it for the global economic challenges and risks to which it is exposed, maximize its market potential, and to reinforce its business model and its operating and financial ratios.
This mission comprises, among others, preparation of the following key subjects: the strategic plan, the annual action plans, and monitoring performance of their execution; external growth operations; and, finally, financial and stock market transactions having a significant immediate or future impact on the share capital and more generally the assets of the shareholders;
– he reviews and discusses with the Chief Executive Officer major decisions within the competence of the Board of Directors or its Committees, prior to their consideration by the said bodies;
– at the invitation of the Chief Executive Officer, he attends internal meetings with Group managers and teams dealing with these subjects to give his views;
– he ensures abidance by and in all circumstances promotes Lectra's core values and uncompromising ethical standards in the conduct of its business;
– he is the 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 monitors legislative and regulatory developments on these questions and regularly verifies that the Internal Rules and Procedures of the Board of Directors are up to date and fit for purpose; and
– along with the Chief Executive Officer, he attends meetings with the shareholders and potential investors, as well as with securities analysts and investors conferences.
The Chairman organizes his time to be available and places his experience at the service of the Group. His missions confer no executive authority.

Missions and Powers of the Chief Executive Officer

The Chief Executive Officer is an executive Officer as defined in the AFEP-MEDEF Code. 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. He may be assisted by one or more Deputy Chief Executive Officers.
As required in the Company bylaws, the Chief Executive Officer must be a member of the Board of Directors. He 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.
He is fully responsible for all operational and executive matters, and all Group teams report to him.
The interactions between the Chief Executive Officer on one hand and the Board of Directors and its Chairman on the other are spelled out in Chapter 1.6 ("Missions and Powers of the Chief Executive Officer") in the Internal Rules and Procedures of the Board.
He reports to each meeting of the Board of Directors on significant developments relating to the life of the Group.
The Chief Executive Officer chairs the Executive Committee and decides its composition.
The Executive Committee has five members: Daniel Harari, Chairman of the Committee, Jérôme Viala, Executive Vice President since January 1, 2017, Chief Financial Officer, Véronique Zoccoletto, Chief Transformation Officer, Édouard Macquin, Chief Sales Officer, and Céline Choussy Bedouet, Chief Marketing and Communications Officer, who joined the Committee on July 1, 2016. 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: André Harari, Chairman of the Board of Directors, Daniel Harari, CEO, Anne Binder, Bernard Jourdan and Nathalie Rossiensky.
The Ordinary Shareholders' Meeting of April 29, 2016 reelected André Harari, Daniel Harari, Anne Binder and Bernard Jourdan to the Board, and also elected Nathalie Rossiensky to the Board. The five Directors are appointed for a four-year period expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2019.
All members of the Board are French nationals.
When preparing for the Ordinary Shareholders' Meeting of April 29, 2016, the Board of Directors again raised the question of the desirable balance in its membership and in that of the Board committees. It concluded that it had taken all necessary steps to guarantee to shareholders and the financial market performs its missions with all due independence, diversity of opinions and objectivity.
The appointment of a fifth Director has further broadened the diversity of skills.
The Board of Directors, meeting after the Ordinary Shareholders' Meeting of April 29, 2016, reelected André Harari to the Chairmanship of the Board and Daniel Harari to the position of Chief Executive Officer.
It named Bernard Jourdan as Lead Director (see § 1.4 below) at its meeting of February 9, 2017.
Finally, the AFEP-MEDEF Code refers to the provisions of the French Commercial Code, which stipulates that, if the employees of the Company hold more than 3% of the Company's capital, or 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, the Board of Directors must include directors representing the employees. The Company is not subject to these requirements inasmuch as it satisfies neither of these conditions.

Directors' Biographies and Other Appointments

Details of Directors' biographies and other appointments are provided in the Company's annual report and can be consulted on its website.
André Harari holds no outside directorships. Daniel Harari holds no directorships outside the Company apart from his directorship of the Company and certain of its subsidiaries.

Directors' Shareholdings

Article 12 of the Company's bylaws stipulates that each Director must hold at least one share of the Company throughout his or her term as a Director.
The AFEP-MEDEF Code states 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, he or she should use the Director's fee received to purchase shares. The Director is required to notify the Company of his or her compliance, this information being provided in the annual report.
At its meeting of February 11, 2016, the Board of Directors decided to apply this recommendation as follows: with effect from fiscal year 2016, all Directors must own at least 3,000 of the Company's shares. Directors who do not hold these shares at the time of joining the Board 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.
The Board had previously taken the view that ownership by certain Directors of only a small number of shares was not detrimental to the functioning of its governing bodies and did not adversely affect the contributions of these Directors. In fact, the five Directors together hold a very large number of shares, and their concern for the interests of the shareholders is self-evident.

The assessment of the work of the Board of Directors shows, moreover, that the Directors in question perform their duties diligently. Finally, the three Directors who are not Company Officers and who individually own the fewest shares, have been selected for their independence and their experience outside the Company.
At February 23, 2017, André Harari held 5,606,851 shares, and Daniel Harari 5,507,560 shares (i.e., 17.9% and 17.6% of the share capital respectively). Also at that date, Anne Binder held 900 shares (of which 700 purchased by reinvesting a portion of her Directors' fee received in respect of FY 2015 and 200 held previously), and Bernard Jourdan 778 shares (of which 700 purchased by reinvesting a portion of his Directors' fee received in respect of FY 2015 and 78 held previously); Nathalie Rossiensky held 300 shares.
In light of the very large shareholdings held by the Chairman of the Board of Directors and by the Chief Executive Officer, the Board has not deemed it necessary to set a minimum number of shares to be held by them.

Criteria Defining Board Members' Independence

The use of the terms "independent Director" is consistent with the terms of the AFEP-MEDEF Code, which stipulates that its definition be discussed by the Nominations Committee and decided by the Board when appointing a Director, as well as annually for all Directors, and that the findings of this review should be brought to the attention of the shareholders.
In the absence of a Nominations Committee, the application of the criteria of independence was verified by the Compensation Committee, acting as the Nominations Committee, of February 11, 2016, attended by the Chairman of the Board of Directors, and by the Board of Directors meeting on the same day, and verified by the Committee and the Board meeting of February 9, 2017.
André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer, are the two Company Officers and as such are not deemed to be independent.

To comply with the rules of corporate governance as set forth in the AFEP-MEDEF Code, in widely-held corporations without controlling shareholders, half of the members of the Board of Directors must be independent. In controlled companies, independent Directors must represent at least one third of the Board membership.
In general, a Director is deemed to be independent when there is no relationship with the Group or its management liable to compromise the said Director's freedom of judgment.
This is the case in respect of Anne Binder, Bernard Jourdan and Nathalie Rossiensky, all of whom satisfy all the criteria of independence laid down in the AFEP-MEDEF Code (in particular, there are no related-party transactions of whatever nature between these Directors and the Company), as verified with each independent Director by the Board of Directors.
Since the Shareholders' Meeting of April 29, 2016, 60% of Board members are independent, compared with 50% previously.

Duration of Board Appointments

Directors have been elected for a four-year term since the Shareholders' Meeting of April 27, 2012, to comply with the recommendations of the AFEP-MEDEF Code. The directorships of the five Board members all have the same four-year duration, expiring on the same date. The Company is therefore non-compliant with the recommendation of the AFEP-MEDEF Code regarding the staggering of Directors' terms. It considers that, given the small number of Directors, maintaining the stability of the Board of Directors with coincident terms of office is an important factor in the proper functioning of the Board and its Committees, guaranteeing a better understanding of the activities, strategy, challenges and issues specific to the Company.

Representation of Women on the Board

The French January 13, 2011 Act laid down new rules on the balance between men and women on Boards of Directors and sets the minimum proportion of Directors of each gender at 40% as of 2017. The AFEP-MEDEF Code set a higher standard, requiring that the 40% threshold be met at the end of the Ordinary Shareholders' Meeting held in 2016.
The Company has respected the figure of 40% since the Shareholders' Meeting of April 29, 2016.
It is pointed out that 40% of the members of the Executive Committee are also women.

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

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's work in the course of a given fiscal year.
The age limit for the position of Chairman of the Board of Directors is 76. This limit will be reached by André Harari on February 21, 2020.

Training of Directors

The Directors who are not Company Officers receive regular training on the specific characteristics of the Company, its businesses and sectors of activity, its product and service offer, its organization and operating mode, notably by means of meetings of the Strategic Committee and the Compensation Committee, and with operational and corporate managers, or through visits to the Group's technology campus, to acquire a thorough understanding of the Company.
Following the renewal of the Board of Directors at the end of 2011, and since the appointment of Nathalie Rossiensky in April 2016, numerous meetings have been held for this purpose for the three independent Directors.

Outside Directorships Held by Company Officers

The AFEP-MEDEF Code recommends that an executive Officer seek the opinion of the Board of Directors before accepting a new directorship in a listed Company.
In the case of a non-executive Officer, the AFEP-MEDEF Code states that the Board may make specific recommendations adapted to the status and specific missions entrusted to him or her.
The Company's Internal Rules and Procedures of the Board go beyond the recommendations of the AFEP-MEDEF code and prohibit the Company Officers from holding directorships in any French or foreign Company, listed or unlisted, outside the Group.

Attendance of Directors at Shareholders' Meetings

In its revised version of November 2016, the AFEP-MEDEF Code recommends that Directors, attend the Shareholders' Meetings.
All Directors attended the Ordinary Shareholders' Meeting of April 29, 2016.

1.3. Committees of the Board of Directors

The Board of Directors has created three specialized Committees: an Audit Committee (2001), a Compensation Committee (2001), and a Strategic Committee (2004).
Given the limited number of Directors, the functions of the Nominating Committee as laid down in the AFEP-MEDEF Code are performed either by the Compensation Committee (in which case the Chairman of the Board of Directors may take part in the discussions, as provided in the AFEP-MEDEF Code) or by the Board of Directors in plenary session, depending on the case.
As recommended by the AFEP-MEDEF Code, no executive Officer sits on the Audit or Compensation Committees (article L. 823-19 of the French Commercial Code bars Directors holding management positions from membership of the Audit Committee). The Company's

Internal Rules and Procedures further bar the Chairman of the Board of Directors, as a non-executive Officer, from membership of either of these two Committees.
Finally, the AFEP-MEDEF Code requires each Committee to establish rules spelling out its duties and procedures, and these have been incorporated into the standing Internal Rules and Procedures of the Board of Directors.
André Harari does not hold any operational position. However, he is closely involved in the monitoring of the management of the Company, is regularly invited by the Chairs of the Audit and Compensation Committees to take part in their meetings to enable them to benefit from his experience and deep knowledge of the Company. Similarly, the Chair of the Compensation Committee and the Chair of the Strategic Committee regularly invite Daniel Harari to attend the meetings of these Committees.
Between meetings of the Committees, their members may communicate as necessary by email, in particular with the Chairman and the Chief Executive Officer, in order to obtain further information on certain questions.

Audit Committee

Membership

The Audit Committee consists of three independent Directors: Bernard Jourdan, Chairman of the Committee, Anne Binder and Nathalie Rossiensky.
The AFEP-MEDEF Code requires the members of the Committee to be competent in financial and accounting matters, and that, upon their appointment, they should be provided with information regarding the specific accounting, financial and operational characteristics of the Company. The members of the Committee satisfy this condition, in view of their academic qualifications and professional career, as described in their biographies.
Bernard Jourdan, the Chairman of the Committee, holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus of the *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.
Anne Binder graduated from the *Institut d'Études Politiques* of Paris. She also has a BA from the Paris faculty of law and a Master in Business Administration from INSEAD in Fontainebleau, France; she is also a Director of the French National Chamber of Financial Expert Consultants.
Nathalie Rossiensky graduated from University Paris-Dauphine with a Master of Applied Mathematics and a Diploma in Advanced Studies in DEA in Financial Economics, and holds a Ph.D. in Finance from the London Business School (United Kingdom).

Mission

As prescribed in law and as recommended by 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 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 the selection of Statutory Auditors when their current appointment expires, and to make its recommendation to the Board of Directors. Each year the Statutory Auditors supply information to the 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;

– review the information required under the "Grenelle II" Act of July 12, 2010 (French law n° 2010-788) and;
– make recommendations and express all opinions to the Board.

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

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, the Chief Financial Officer and the Deputy Chief Financial Officer attend all of these meetings.

The Audit Committee held five meetings in 2016, with an effective attendance rate of 100%.

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 reporting. The Chief Financial Officer and the Deputy Chief Financial Officer assist the Committee in the performance of its duties, and the Committee periodically reviews with them areas of potential risk to which it needs to be alerted or requiring closer attention. The Committee also works with them in reviewing and approving guidelines for the work program on management control and internal control for the year in progress.

The Committee notably reviews significant off-balance sheet risks and liabilities, assesses the magnitude of malfunctions or weaknesses brought to its attention, and any necessary corrective measures, 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 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, which takes place quarterly, is accompanied by a presentation by the Chief Financial Officer and the Deputy Chief Financial Officer of the Company's financial results, accounting methods chosen, exposure to risks and significant off-balance sheet commitments. It 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 Committee Chairman systematically asks the Statutory Auditors if they intend to qualify their reports.

At the Committee meeting preceding the meeting of the Board of Directors held to consider the preparation of the Annual Shareholders' Meeting, the Committee notably reviews the Board of Directors' Management Discussion and the Chairman's report on internal control procedures and risk management, and on corporate governance, for the past year, and makes recommendations.

Furthermore, the Committee considered the report of the French Financial Markets Authority (AMF) on corporate governance and executive compensation of November 17, 2016 together with the AMF recommendation of November 3, 2016 on the 2016 financial statements, the AMF report on corporate social, societal and environmental responsibility of November 17, 2016, together with the guides published by the AMF on October 26, 2016 on ongoing and periodic information.

In 2016, and again on February 9, 2017, at its meetings held to review the financial statements for fiscal 2016, the Committee notably reviewed the goodwill impairment tests and deferred tax assets at December 31, 2016, together with the impacts on the financial statements of the December 29, 2015 Budget Act *(loi de finances)* for 2016, of the Amending Budget Act for 2016 of December 29, 2016 and of the December 29, 2016 Budget Act for 2017.

The Committee also reviewed the mandatory corporate social, environmental and societal disclosures required under the French "Grenelle II" Act (Law n° 2010-788) of July 12, 2010, its enabling decree published on April 24, 2012 and its decree of August 19, 2016, to be included in the Grenelle II report appended to the Board of Directors' report submitted to the Annual Shareholders' Meeting on April 28, 2017, together with the procedures and conditions in which the inspecting body performed its audit.

On February 9, 2017 the Committee reviewed the Company's budget as well as the revenue and income scenarios for the fiscal year 2017, and those contained in the new strategic roadmap for 2017-2019, together with macroeconomic assumptions serving as the basis for the information communicated to the market.
The Committee has not identified any operations liable to give rise to a conflict of interest.
The 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 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 9, 2017, the 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 Committee annually reviews with the Statutory Auditors the risks to the latter's' 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 immaterial and therefore not such as to impair the independence of the Statutory Auditors.
The 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 and its subsidiaries. However, additional work or work directly complementing the audit of the financial statements is performed at the Committee's recommendation; the corresponding fees are immaterial. The Committee has not seen fit to call upon outside experts.
At its meeting of October 27, 2016, the Committee reviewed the consequences of the coming into effect of the reform of audit procedures following the European Union directive published in May 2014 and partially transposed into French law by the Executive Order of March 18, 2016 and the decree of July 28, 2016.
The Internal Rules and Procedures have been amended to reflect these now requirements.
Among other points, this reform spells out the principles governing the rotation of Statutory Auditors in the performance of their audit duties. It would therefore be possible to appoint KPMG and PricewaterhouseCoopers for a final six-year mandate on the occasion of the Ordinary Shareholders' Meeting called to approved the financial statements for fiscal 2019, at the expiration of their current mandate.
Pursuant to these requirements, on October 27 the Audit Committee approved a charter setting forth the authority of the Chief Executive Officer, Chief Financial Officer and Deputy Finance Director regarding contracting for the provision of services with the Statutory Auditors and their networks.
Finally, in its amended version of November 24, 2016, 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 meeting, prior to the latter, in order to shorten the time between the closing of consolidated and statutory financial statements and market disclosure. However, the 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 at least three to five days before their meetings.

Compensation Committee

Membership

The Compensation Committee consists of three independent Directors: Bernard Jourdan, Chairman of the Committee, Anne Binder and Nathalie Rossiensky. 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 the AFEP-MEDEF Code and 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 Committee validates the actual amount corresponding to variable compensation earned during the fiscal year elapsed;

– review the principles and amount of fixed and variable compensation, together with annual targets governing calculation of the variable portion, together with additional benefits paid to other members of the Executive Committee;

– review the fixed and variable compensation of all Group managers whose total annual compensation exceeds €200,000 or its equivalent in foreign currencies (€150,000 until December 31,2016);

– 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 prior to annual discussion by the latter, as prescribed in the (French) January 13, 2011 Act and that of August 6, 2014;

– take cognizance annually of the Group's human resources performance report, of its policies and of the corresponding plan for the current fiscal year.

In that capacity, the Compensation Committee makes recommendations and expresses all opinions to the Board. More generally, the Compensation Committee may consider 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 before each meeting of the Board 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 said meeting.

The Committee met five times in 2016 with an effective attendance rate of 100%. The Chairman of the Board of Directors and the Chief Executive Officer were invited to attend all of these meetings with the exception of December 8, 2016, when they were not present at the meeting of the Committee.

The Compensation Committee reviews the compensation and additional benefits of the other members of the Executive Committee, as well as 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 Committee reviews in detail all corresponding documents prepared by the Chief Executive Officer and the Chief Human Capital Officers, France and International, and communicates its recommendations to the Board.

In particular, the Committee examined the third activity report of the High Committee for Corporate Governance created by AFEP and MEDEF and published on October 10, 2016, as well as the AMF report on corporate governance and executive compensation of November 17, 2016.

The Committee also met on February 9 and February 23, 2017, prior to the Board of Directors, to assess the definitive amounts of the variable compensation of the Company Officers, and to review the principles and amounts of their fixed and variable compensation for the new three-year period from 2017 through 2019, together with the rules governing their 2017 variable compensation based on the targets for 2017.

Moreover, the AFEP-MEDEF Code recommends that, when reporting on the proceedings of the Compensation Committee to the Board of Directors, the Board should deliberate on issues relating to the compensation of the Company Officers in the absence of the latter.

The Board has seen fit to comply with this recommendation and has decided, since the fiscal year 2016, that the Compensation Committee, which comprises all of the independent Directors to the exclusion of the Company Officers, will meet annually in the absence on the latter for the purpose of discussing their compensation. The Chairman of the Compensation Committee has submitted the Committee's recommendation to the Board in full session. This procedure applied for the first time on the occasion of the meetings of the Compensation Committee and the Board of Directors of February 11, 2016 and also applied for the Compensation Committee of December 8, 2016 and the Board of Directors of February 9, 2017.

Strategic Committee

Membership

The Strategic Committee consists of four Directors, three of whom are independent: André Harari, Chairman of the Committee, Anne Binder, Bernard Jourdan and Nathalie Rossiensky.

Mission

The prime mission of the Strategic Committee is to review the consistency of the Company's strategic plan, its 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.
It makes all recommendations and delivers all opinions to the Board.
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.
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.
It notably reviews and discusses the major strategic directions and development themes proposed by the Chairman of the Board of Directors and the 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.
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 assets of the shareholders. It is kept informed of their execution.

Meetings and Activities

The Committee met five times in 2016, with an effective attendance rate of 100%.
It devoted an entire day to visiting the Bordeaux-Cestas technology campus and meeting with the research and development project leaders.
In view of the importance of the subjects covered, the Chief Executive Officer was invited to attend all these Committee's meetings. The Strategy Director, appointed on July 1, 2016, was invited to attend two meetings.
The Committee in particular reviewed progress in the execution of the 2013-2016 strategic roadmap, took part in discussions throughout the planning of the new strategic roadmap for 2017-2019, reviewed the broad outlines of the research and development action plan, marketing and human resources plans and the corresponding revenue and income scenarios, and formulated recommendations. The Committee has been regularly informed of the impact on the Group's activities of developments in the macroeconomic environment.
At its meeting of January 26, 2017, the Committee also reviewed and discussed the scenarios framed for 2017-2019, and the priorities for 2017.

Limits to the Decision-Making Powers of the Committees

Subjects that the Chairman of the Board of Directors, the 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. The Board 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 required to be made by the Board of Directors, and in particular those concerning the compensation of Company Officers and the granting of stock options programs to Group managers and employees, together with all external growth operations, are considered and approved in full sessions of the Board of Directors.
Moreover, all financial press releases and notices published by the Company are submitted to prior review by the Board and the Statutory Auditors, and are published on the same evening after the close of Euronext.

1.4. Lead Director

At its meeting of February 9, 2017, the Board of Directors named Bernard Jourdan Lead Director, a newly-instituted position. Bernard Jourdan is also Chairman of the Audit and Compensation Committees.
Under the AFEP-MEDEF Code, when the Board decides to confer special tasks upon a Director, and in particular a Lead Director, these tasks and the resources and prerogatives to which he or she has access must be described in the internal rules. It is recommended that the Lead Director be independent.
The missions of the Lead Director are:
– 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 Company Officers, in order to evaluate their performance and their succession plan, and to report to the Chairman of the Board of Directors and to the Board in full session, as appropriate;
– to monitor and manage possible conflicts of interest in connection with the Company Officers;
– to propose to the Chairman, 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 the Chief Executive Officer are unable to do so, to convene and to chair the meetings.
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.
The Lead Director is assisted by the Secretary of the Board of Directors 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. A report on his/her activity will be appended to Chairman's Report on Corporate Governance for the first time in respect of fiscal 2017.
This new function has been incorporated into the Internal Rules and Procedures.

1.5. Board of Directors and Board Committees Overview

	André Harari	Daniel Harari	Anne Binder	Bernard Jourdan	Nathalie Rossiensky
Executive and non-executive Officers	Chairman of the Board of Directors (non-executive)	Chief Executive Officer (executive)			
First appointed	1977[1]	1991	October 27, 2011	December 21, 2011	April 29, 2016
Re-elected	April 29, 2016	April 29, 2016	April 29, 2016	April 29, 2016	
Term expires	Shareholders' Meeting called to approve fiscal 2019 financial statements	Shareholders' Meeting called to approve fiscal 2019 financial statements	Shareholders' Meeting called to approve fiscal 2019 financial statements	Shareholders' Meeting called to approve fiscal 2019 financial statements	Shareholders' Meeting called to approve fiscal 2019 financial statements
Number of years on Board	40[1]	26	5	5	1
Nationality	French	French	French	French	French
Age	73	62	66	72	47
Gender	Male	Male	Female	Male	Female
Status	Non-independent	Non-independent	Independent	Independent Lead Director[2]	Independent
Experience and expertise provided to the Company			Strategy, financial, international	Strategy, industrial, financial, international	Strategy, financial, international
Number of outside directorships in listed companies	0	0	1	0	0
Board of Directors	Chairman	Member	Member	Member	Member
2016 effective attendance	100%	100%	100%	100%	100%
Audit Committee			Member	Chairman	Member
2016 effective attendance			100%	100%	100%
Compensation Committee			Member	Chairman	Member
2016 effective attendance			100%	100%	100%
Strategic Committee	Chairman		Member	Member	Member
2016 effective attendance	100%		100%	100%	100%
Independent Directors meeting			Member	Member	Member
2016 effective attendance			100%	100%	100%

(1) Member of the Supervisory Board until 1991.
(2) Lead Director since January 1, 2017.

1.6. Internal Rules and Procedures of the Board of Directors and Board Committees

The AFEP-MEDEF Code recommends the establishment of internal rules to govern the procedures of the Board of Directors and the Board Committees.
The Board of Directors laid down principles several years ago governing all cases requiring prior approval, notably as regards commitments and guarantees given by the Company, significant transactions outside the stated strategy of the Company (the case has never arisen), and all external growth operations, and has laid down the rules whereby it is informed of the Company's financial situation and cash position.
In view of the changes that have occurred in its membership, the Board of Directors adopted in 2012 a set of Internal Rules and Procedures, updated on February 23, 2017.
The Company bylaws 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 rules of governance 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's Internal Rules and Procedures.
Each Director must ensure at all times that their personal situation avoids all conflicts of interest with the Company or Group companies, has a duty spontaneously to inform the Board of any situation or risk of conflict of interest, real or potential, and must abstain from taking part in corresponding discussions, votes or deliberations.
Further, and without prejudice to the formalities pertaining to authorizations and control prescribed by law and the Company bylaws, Directors are required to notify the Chairman of the Board 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 of the Board notifies the Board of any conflicts of interest or potential conflicts he may have identified concerning the Company Officers and the other Directors.
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 their position.
No such situation arose in the year under review, nor has one arisen in earlier years.
The Chairman of the Board of Directors and the Chief Executive Officer abstain from participating in the votes on motions regarding their respective compensation.
There were no related-party transactions in either 2016 or 2015.

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.
The timetable of meetings of the Committees, Board of Directors and Annual Meetings of Shareholders for the period 2016-2018 was communicated to the Board of Directors on July 27, 2016; the timetable for the period 2017-2019 was communicated to the Board of Directors on February 9, 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 Annual Shareholders' Meeting is made payable, or thirty to forty-five calendar days after the Annual Shareholders' Meeting if there is no dividend, i.e. around June 10, for the granting of the annual stock option plan.
The Statutory Auditors are invited to, and systematically attend, these meetings (with the exception of the meeting to decide on the annual stock options plan).

In addition, the Board also meets outside of these dates to discuss other subjects falling within its responsibilities (including all planned acquisitions or the review of the Company's strategic plan) or those that the Chairman wishes to submit to the Directors. The Chief Financial Officer, appointed Board Secretary, is systematically invited to attend and takes part in all Board meetings, except when prevented from doing so.
The Board of Directors met seven times in 2016, 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 bylaws, regarding in particular maintenance of the principle of one share, one vote following the entry into force of the French March 29, 2014 Act (Law n° 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 bylaws 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 bylaws in consequence.
As a result, only 331,044 shares (representing 1.1% 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, 2016.

1.9. Investor Information on the Company's Long-Term Outlook

The AFEP-MEDEF Code stipulates that, in communicating with the market, corporations must spell out their long-term outlook in their disclosures to investors. The Company has complied with this requirement, presenting its strategic roadmap since the publication of its fourth quarter and full-year financial results for 2012, on February 12, 2013, its 2012 Annual Report and the Report of the Board of Directors to the Ordinary Shareholders' Meeting of April 30, 2013.
The Company presented its new 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 Proceedings—Communication of Information to Directors

The agenda is set by the Chairman of the Board of Directors after consulting with the Chief Executive Officer, the Chief Financial Officer and, where appropriate, the Chairmen of the Audit Committee and the Compensation Committee in order to place on the agenda all subjects they wish to be discussed at the forthcoming Board meeting.
In advance of each Board meeting, a set of documents is systematically addressed to each Director, to the employees' Works Council representatives and to the Chief Financial Officer, as well as to the Statutory Auditors for the four meetings called to review the financial statements and for the meeting to prepare for the Annual General Meeting of Shareholders. Details of each item on the agenda are provided in a written document prepared by either the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, or the Chief Human Capital Officers, France and International, as required, or are presented during the meeting itself.
As in previous years, in 2016 all documents to be communicated to the Directors were made available to them in compliance with regulations. Further, the Chairman regularly asks Directors if they require additional documents or reports in order to complete their information.
Detailed minutes are produced for each meeting and submitted to the Board of Directors for approval at a subsequent meeting.

1.11. Evaluation of the Board of Directors

The AFEP-MEDEF Code recommends that once a year the Board should devote an item on its agenda to a discussion of its membership, organization and functioning. The Board is also required to verify that important questions are thoroughly prepared and discussed, and to assess the effective contribution of each Director to its works in light of their expertise and involvement in the discussions.

This point is discussed at the February Board meeting which reviews the financial statements for the year elapsed.

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.

In light of the renewal of the Board of Directors and the appointment of a fifth director by the Shareholders' Meeting of April 29, 2016, the Board has decided to comply with these recommendations, and conducted a formal evaluation for the first time on December 9, 2015.

The Board previously considered that this recommendation was satisfied informally, because of its small size, the comprehensive nature of the subjects discussed, the extent of its disclosure, and the fact that the Directors were accustomed to working together and regularly discussing its functioning.

A complete list of criteria was submitted to each Director to allow him or her to rate and comment on each criterion, and to propose changes or improvements, if any, and to measure the contribution of each individual Director to the work of the Board, which was unanimously deemed to be excellent.

The independent Directors had also decided to meet annually, in the absence of the two Company Officers, to take note of changes relative to the previous evaluation and to conduct a formal evaluation every three years.

The three independent Directors met on December 8, 2016, in the absence of the two Company Officers, to review the annual evaluation of the Board of Directors, presenting their conclusions to the Chairman of the Board, then to the full meeting of the Board on February 9, 2017.

In this meeting, they reiterated their opinions of earlier years regarding the highly satisfactory functioning of the Board, the particularly high standard of governance within the Company, and the transparent relations with the two Company Officers founded on complete trust.

They again emphasized the high level of demands that the Chairman and the Directors put upon themselves, notably with regard to the preparation and proceedings of Board and Committee meetings, the quality, relevance and comprehensive nature of the information communicated to them. The time frame in which it is communicated allows them sufficient time to consider it.

They appreciated the program drawn up with the Chairman to complete their familiarization with the businesses and specific characteristics of Lectra. Access to key managers is facilitated in particular on the occasion of comprehensive presentations arranged on the Bordeaux-Cestas (France) technology campus.

Finally, they again emphasized the readiness of the Chairman of the Board to answer their requests regarding specific subjects.

The Directors further stressed the frequency of the meetings of the Board, 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, the regular attendance and the effective contribution of each of their members are a major asset.

The independent Directors reiterated their wish that the Chairman be invited to attend the meetings of the Audit and Compensation Committees as a guest, and that the Chief Executive Officer be invited to meetings of the Compensation Committee and Strategic Committee.

Finally, they stated that they saw no area in need of improvement at present.
At its meeting of February 9, 2017, the Board of Directors unanimously considered that its new composition, with the appointment of Nathalie Rossiensky, achieves its diversification aims in terms of increased female representation and international experience. Having regard to its size, operational constraints and the particularly rich international experience of its members, the Board considered that there was no need to appoint a non-French Director to its ranks.

1.12. Periodic Meetings of the Independent Directors in the Absence of the Company Officers

The AFEP-MEDEF Code further recommends that the independent Directors meet periodically in the absence of the Company Officers or internal Directors.
The independent Directors decided to adopt this recommendation with effect from 2015, expanding the range of subjects they wish to discuss in the absence of the two Company Officers on the occasion of their annual evaluation of the Board. They did so for the first time on the occasion of their meeting on December 9, 2015.
Given the way the Board of Directors works, the independent Directors have not hitherto seen fit to follow this recommendation, bearing in mind that they were free, if they wished to do so, to meet and discuss matters without the Company Officers being present, in the course of meetings of the Board Committees.
The independent Directors met on December 8, 2016 and an oral report was made to the Chairman of the Board of Directors. In addition to the annual assessment of the work of the Board, they discussed a number of governance issues, took stock of the annual review of the Company Officers' performance, and discussed their succession plan.

1.13. Company Officers' 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 November 24, 2016 version, 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 of the Board of Directors may take part or be 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, which was also attended by the Chief Executive Officer, 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 Group has the requisite array of competencies to cope with a temporary absence of Daniel Harari and/or André Harari, thanks in particular to the organization and smooth functioning of the Executive Committee and the Board of Directors.
In the event of an untimely departure or demise, all of the Board 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.
Daniel Harari has confirmed his intention to continue in his position for at least one further four-year term at the end of his current term, i.e. until the Ordinary General Meeting of Shareholders called to approve the financial statements for fiscal year 2023.
André Harari's term as Chairman will end at the expiration of his current Directorship, i.e. at the end of

the Ordinary General Meeting of Shareholders called to approve the financial statements for fiscal year 2019, at which moment he will have reached the mandatory age limit for the position of Chairman of the Board of Directors. He has stated that he will not stand for re-election to the Board.
At that time, or should André Harari relinquish his position beforehand, the Board of Directors will, in principle, terminate the separation between the positions of Chairman and Chief Executive Officer and will reunite these positions, as was the case before 2002. Daniel Harari would be named Chairman and Chief Executive Officer, the position he held between 1991 and 2001. The Board would continue to include an independent Lead Director.

1.14. AFEP-MEDEF Code Recommendations not Implemented: Application of the "Comply or Explain" Rule

As recommended by the AMF, the table below summarizes the sole provision of the AFEP-MEDEF Code, referred to under article 27.1, 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 of the French Commercial Code.
As explained in the relevant sections above, the Board of Directors has decided to comply with certain recommendations previously not implemented, starting in fiscal year 2016, which are highlighted in the table, thereby reducing the number of exceptions to one only.

AFEP-MEDEF Code recommendations not implemented[1]	Explanation
Staggering of Directors' terms of office	The Company considers that, given the small number of Directors, maintaining the stability of the Board of Directors, with coincident terms of office, is an important factor in the proper functioning of the Board and its Committees and guarantees a better understanding of the activities, strategy, challenges and issues specific to the Company.

(1) The foregoing table presents only those exceptions to, or recommendations of, the AFEP-MEDEF Code that apply to the Company when it falls within the scope of the relevant legislation, as specified in the appropriate sections of this report.

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

In its work, and in preparing this report, the Company refers to the general principles set forth in the reference framework published by the AMF, and to its guide to implementing this recommendation for small and mid-sized companies updated in July 2010. The Company also meets the requirements of Article L. 225-37 of the French Commercial Code as revised and entered into force on December 31, 2016.
Risk management and internal control arrangements refer to the parent Company Lectra SA and to its consolidated subsidiaries. The general approach adopted for this purpose makes due allowance for issues specifically applicable to the Company and its subsidiaries having regard to their respective size and relations with the parent Company.
They are deployed as rapidly as possible in the new subsidiaries formed by the Company, and generally within a time frame not exceeding 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, 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 establishment of a self-assessment procedure for internal control processes, and harmonization of the financial reporting information system are all part of this program.
The main risks to which the Company is exposed, given the specific nature of its activities, structure and organization, and that of its strategy and business

model, are discussed in chapter 4 of the Management Discussion, to which this report is appended and to which the reader is referred. This chapter also covers the management of these risks: their identification, their analysis and how they are addressed.
The internal audit approach implemented by the Group is a key component of risk management.

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 following objectives.

2.1.1. Legal and Regulatory Compliance

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

2.1.2. Oversight of Proper Application of General Management Instructions

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

2.1.3. Protection of Assets and Optimizing Financial Performance

The purpose of the processes in place and procedures to control their application is to optimize the financial performance consistently with the Company's short and medium-term financial goals. Internal control procedures contribute to the safeguarding of Group fixed and intangible assets (such as intellectual 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.

2.1.4. Reliable Financial Information

Among the control mechanisms in place, special emphasis is placed on procedures for preparing and processing accounting and financial information. Their aim is to generate reliable, high-quality information that presents a fair view of the Company's operations and financial condition.

2.1.5. Risk Management

The risk management procedures, to which the internal control system contributes, follow objectives that are common or specific to internal control procedures. It aims 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;
– align 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.
Lectra's internal control procedures are designed to achieve the specific objectives of the risk management system. It covers all Group companies, taking into account their diversity in terms of size and the challenges of the different subsidiaries and the parent Company. Similarly, the cost of implementing the system's performance target for covered risks versus residual risks is 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.

2.2. Components of Internal Control

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

(a) Organization and Decision-Making Process

As indicated in chapter 1, the Board of Directors is responsible for setting the strategy and direction of the Company's operations, and for overseeing their implementation. The Chairman of the Board is responsible for overseeing the proper functioning of the Company's managing bodies.

The Audit Committee discusses the internal control system at least once a year with the Group Statutory Auditors. It gathers their recommendations and, notably, ensures that their level and quality of coverage are adequate. It reports on its proceedings and opinions to the Board of Directors.

The Executive Committee implements the strategy and policies defined by the Board of Directors. Its members have each been delegated broad powers and are critical to the effectiveness of the internal control system.

The Chief Executive Officer 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. He is fully responsible for all operational and executive matters and, together with the other members of the Executive Committee, for worldwide sales and service operations, of which the regional managers and subsidiaries form part.

All important decisions (sales strategy, organization, investment and recruitment) 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 Chief Executive Officer 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 subsidiaries and regions and of the directors of the various corporate divisions are laid down by the Chief Executive Officer or by a member of the Executive Committee, depending on the area concerned. These powers and their limits are communicated in writing to the directors concerned. The directors are then required to account for their utilization of the powers thus conferred on them in the pursuit of their objectives, in monthly or quarterly reports on their activities to the members of the Executive Committee and to the Chairman of the Board of Directors.

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.

The Chief Executive Officer draws up a detailed annual action plan to ensure the proper execution of the strategic roadmap. This is very closely monitored by the Executive Committee, the Chairman of the Board of Directors, and the Strategic Committee.

(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 General Management in terms of the quality, relevance, timeliness and comprehensiveness of information.

An ERP software application covers all functions pertaining to the parent Company's activities (purchasing, supply chain and accounting functions) and those of all Group subsidiaries (order and billing processing, and after-sales services).

The Group utilizes a statutory financial statements consolidation and management reporting software package ensuring the quality of financial disclosure and guaranteeing the consistency of internal information and the Group's external financial communication.
A human resources administration information system tracks and controls personnel movements (recruitments, promotions, departures, etc.), as well as compensation and changes in compensation.
A customer relations management (CRM) system and marketing automation software enhances Group sales and marketing efficiency and supports its transformation plan.
Together, these systems are contributing to the implementation of harmonized Groupwide management procedures and rules while boosting the effectiveness of controls.
Finally, specific procedures are in place to ensure the physical security and preservation of data, these procedures being periodically upgraded in response to the changing nature of risks.

(c) Procedures

A large number of procedures 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 different 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.
Procedures have been put in place for more effective monitoring of sales teams' performance, notably including tracking their fulfilment of targets and of individual performance (business expertise, knowledge of Lectra's products and services, and their proficiency in sales methods and tools).

- **Credit Management**

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

- **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 Chief Human Capital Officers. All recruitments and dismissals must receive the division's prior authorization.
Compensation is reviewed annually and submitted to the Chief Human Capital Officers, France and International, for approval.
Finally, for all personnel whose total annual compensation exceeds €200,000 (€150,000 until December 31, 2016) 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 and Currency Risk**

The Company's internal control procedures regarding treasury operations mainly concern bank reconciliations, security of payment means, delegation of signing authority, and monitoring of currency risk.
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 Company 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.
All decisions pertaining to currency hedging instruments are made jointly by the Chief Executive Officer and the Chief Financial Officer, and are implemented by the Group Treasurer.

2.2.2. Identification and Management of Risks

Risk factors and risk management processes are described in detail in chapter 4 of the Management Discussion to which this report is appended.
Given its activity, the company has not identified any financial risk related to climate change, and thus has not established dedicated risk management procedures. On a more general scale, for environmental matters, the company has set up measures aiming at minimizing its impact on the environment, as detailed in the "Grenelle II" report appended to the Management Discussion.

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

The Group does not have an internal audit department as such, but the Group Finance division—in particular the treasury and management control teams—and the department of Legal Affairs are central to the internal control and risk management system.
Controls are in place at many points throughout the Group's organization. These are adapted to the critical aspects of the processes and risks to which they apply, depending on their influence on the performance and fulfilment of Group objectives. Controls are conducted by means of IT applications, procedures subject to systematic manual control, via ex-post audits, or via the chain of command, in particular by members of the Executive Committee. Spot checks are also performed in the various Group subsidiaries.
In each subsidiary, the person in charge of finance and administration, which usually comprises legal affairs, also plays a major role in the organization and conduct of internal controls. The primary mission of this person, who reports functionally to the Group Finance division, is to ensure that the subsidiary complies with the rules and procedures established by the 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 the France and International Human Capital departments, 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 and is hedged by a range of derivative instruments.

2.2.4. 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. In particular, it has accelerated deployment of its transformation plan over the period 2012-2015, and will do so again with the execution of its new 2017-2019 strategic roadmap. Each change in its organization or modus operandi is preceded by a review process to ensure that the proposed change is consistent with the preservation of an internal control environment complying with the objectives described in chapter 2.1 above. Within this context, the scope and distribution of the powers of individuals and teams, reporting lines and rules for the delegation of signing authority are subject to scrutiny and are adjusted, if necessary, 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 2017:
– 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.
It is also planned to step up the internal audits of Group subsidiaries, already underway in 2016, in 2017.
This matter is the subject of a specific communication to the Audit Committee and discussion at least once a year.

2.3. Specific Procedures Concerning the Preparation and Processing of Accounting and Financial Information

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

2.3.1. Reporting and Budget Procedures

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

2.3.2. Accounts Preparation and Verification Procedures

(a) Monthly Financial Results

The actual results of each Group Company are verified and analyzed 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 the financial information properly prepared.
Assets and liabilities are subject to regular controls to ensure the accuracy of monthly reported results. These controls include physical counting of fixed assets and reconciliation with accounts; a cycle physical count of inventories; a comprehensive monthly review by the Finance division of overdue accounts receivable; a monthly analysis of provisions for risks and charges, and provisions for asset impairment.

(b) Quarterly Consolidation

Group financial statements (statement of financial position, income statement, statement of cash flows, and statements of changes in equity) are consolidated on a quarterly basis. The process of preparing the consolidated financial statements comprises a large number of controls to ensure the quality of the accounting information communicated by each of the consolidated companies and of the consolidation process itself.
All Group subsidiaries employ a single standard consolidation reporting package 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 Chief Executive Officer, by the Chairman of the Board of Directors in the course of organizing the work of the Board of Directors, and then submitted to the Audit Committee, before being reviewed and approved by the Board of Directors, and published by the Company.

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

The specific procedures for collecting and ensuring the reliability of corporate social, societal and environmental information, and for preparing the annual "Grenelle II" report, publication of which is now mandatory since the coming into effect of the "Grenelle II" Act in 2012, has been fully operational since 2015, under the supervision of the Chief Financial Officer.

3. PRINCIPLES AND RULES ESTABLISHED BY THE BOARD OF DIRECTORS FOR DETERMINING THE COMPENSATION AND BENEFITS OF COMPANY OFFICERS AND OTHER DIRECTORS

The recommendations of the AFEP-MEDEF Code are 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 senior managers conditional on the extension of such option plans to all employees or to the existence of mechanisms entitling all employees to a share of profits;
– terminate the granting of bonus shares unrelated to performance to Company Officers; the latter must also purchase shares at market price additional to any performance-related shares granted to them;
– make compensation policies more transparent by means of a standardized disclosure format.
In its statement on November 28, 2008, the Company declared that:
– it had already been in spontaneous compliance with these recommendations for many years with regard to André Harari and Daniel Harari in their respective capacities as Chairman of the Board of Directors and Chief Executive Officer;
– in particular, André Harari and Daniel Harari have never combined their positions as Company Officers with an employment contract, are not entitled to any component of compensation, indemnity or benefit owed or liable to be owed to them in virtue of a termination or change of their functions, to any additional defined benefit pension plan, stock options or bonus shares.

Detailed information additional to the disclosures below is provided in the Management Discussion and Analysis to which this report is amended, particularly regarding the compensation of the Company Officers.

3.1. Company Officers

The sole Company Officers are André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer.
In its amended version of November 24, 2016, 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 must give reasons for its decisions in this regard.
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 long-term performance and competitiveness. The compensation must make it possible to attract, retain and motivate high-quality directors.
Regarding non-executive Officers, the Code stipulates that the granting of variable compensation is not desirable; however, if the Board so decides, it must give its reasons.
The compensation policy as decided by the Board of Directors has been strictly identical for the Chairman and for the Chief Executive Officer since the separation of their functions in 2002, as was previously the case.
In particular, it takes into account the particularly heavy workload and the extent of the specific missions entrusted to the Chairman of the Board of Directors, who devotes the necessary time to these duties and holds no appointments in other companies, consistent with the prescriptions of the Internal Rules and Procedures.
Acting in concert, the Chairman and the Chief Executive Officer are jointly accountable for the outcome of the strategy pursued by the Group under their leadership.

Their significant stake in the capital ensures their interests are strongly aligned with those of the shareholders and the financial performance of the Group. Their compensation comprises a fixed portion and an annual variable portion. It does not include any multi-year variable compensation or 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 their function, nor any supplementary retirement plan. This policy is clear, consistent with the long-term strategy, objectives and challenges of the Group, and directly linked to its performance. It reflects their respective experience, competencies and responsibilities. It has proved its worth both in tough years and in years of record profits.

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

Since 2014, 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.

The AFEP-MEDEF Code states in particular that "*the rules for fixing this compensation must be consistent with the annual review of the performances of the executive Officers and the corporate strategy. They depend on the Director's performance and the progress made by the company. The terms of the annual variable compensation must be understandable to shareholders. Clear and complete information must be provided each year in the annual report.*" As stated below, the share price is not included among these criteria. "*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 [...]. 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, consistently reporting how these criteria have been applied on the basis of results for the year in review. The compensation of Company Officers is paid in its entirety by Lectra SA. They receive no compensation or particular benefit from companies controlled by Lectra SA within the meaning of article L. 233-16 of the French Commercial Code (Lectra SA is not controlled by any company).

No stock options have been granted to the two Company Officers since 2000.

The only benefit accorded to them in force in 2016 concerns the valuation for tax purposes of the utilization of Company cars, the amount of which is indicated in the Management Discussion and Analysis of the Board of Directors.

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

In view of the foregoing, the Company is compliant with the recommendations laid down in its amended version of November 24, 2016 of the AFEP-MEDEF Code, strengthening the rules governing elements of Company Officers' compensation—not applicable in the case of this

Company—notably introducing specific requirements relating to non-competition clauses and to start-of-contract indemnities, or with regard to caps on additional pension benefits.

Each year the Board of Directors starts by determining the amount of target-based total compensation for the year.

The fixed portion of compensation is equal to 40% and the variable portion to 60% of total compensation conditional upon fulfilment of annual targets. The variable portion 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 and earnings growth.

Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent 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 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 (the share of variable compensation for three of the members of the Executive Committee is equal to 35% of their total target-based compensation; the corresponding share for the fourth member is 30%). These criteria also apply to certain managers reporting to them, with the same specific features.

Compensation for 2016

At its meeting of February 12, 2013, the Board of Directors set the total target-based compensation of the Chairman of the Board of Directors and the Chief Executive Officer for the three years 2013, 2014 and 2015. The Chairman and the Chief Executive Officer had expressed the wish that the Board of Directors maintain their total compensation for 2016 unchanged, together with the four performance criteria used to determine their variable compensation, and their relative weighting. They did so in spite of the significant development of the Company since 2013, partly in order to align with the extension of the current roadmap from 2015 to 2016, and partly because revenue and earnings growth had lagged behind the original financial targets.

Compensation for 2017-2019

The compensation of the Chairman and of the Chief Executive Officer has been reviewed and set by the Board of Directors at its meeting on February 9, 2017 for the three-year period from 2017 through 2019, corresponding to the new strategic roadmap.

The Board of Directors will continue to apply the principle of a three-yearly review of the compensation of the Company Officers, the next one taking place in 2020. Compensation takes into account the new strategic objectives set, challenges and key issues for this period, aimed at growing the size of the Group, strengthening its global leadership and competitiveness, increasing its shareholders' equity thanks to free cash flow generated, and finally, bolstering its key operating fundamentals and expanding sales, earnings and operating margin in persistently tough macroeconomic conditions.

The principles applied hitherto remain unchanged, particularly as regards the absence of any exceptional compensation, performance-based stock options, supplementary retirement plans, indemnity for departure or non-competition.

For 2017, variable compensation, equal to 60% of total target-based compensation, is based on the following four clear and complementary quantifiable criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets, reflecting the Company's strategy of profitable sales activity and earnings growth and determined according to clear criteria: (i) a criterion measuring the contributive value of growth in sales activity (accounting for 50%); (ii) consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 30%); (iii) consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after restatement of certain items (accounting for 10%); and (iv) a criterion measuring the contributive value of recurring contracts (accounting for 10%). The corresponding calculations eliminate the impact of actual currency variations relative to those used to set the targets.

These criteria and their relative weight are unchanged from the previous years.

For each of these four 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 according to the Group's objectives 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.

Total compensation may therefore vary depending on performance, ranging from 40% and 160% of the total target-based compensation.

The Company Officers also receive Directors' fees in addition to the fixed and variable compensation.

Consultation of Shareholders on Individual Company Officers' Compensation

The June 2013 amended version of the AFEP-MEDEF Code introduces new recommendations on corporate governance, including a procedure for the annual consultation of shareholders on individual Company Officers' compensation, in application of the "say on pay" principle. This entails submitting for shareholders' approval separate resolutions for each Company Officer. In the event of a negative vote, the Board of Directors, acting on the opinion of the Compensation Committee, is required to vote on the matter and to publish on the Company's website a statement indicating how it intends to respond to the expectations of the shareholders. Shareholders have been invited to express their opinion with effect from fiscal year 2013.

As stated in the Management Discussion and Analysis of Financial Condition and Results of Operations, the amended version of the AFEP-MEDEF code released on November 24, 2016 recommends that the items of individual compensation due to or awarded to Company Officers be subject to a mandatory vote by the shareholders.

In the event of a negative opinion, the Board of Directors must meet within a reasonable period and examine the reasons for this vote and the expectations expressed by the shareholders. Following this consultation and on the recommendations of the Compensation Committee, the Board will rule on the modifications to be made to the compensation due or awarded in respect of the closed financial year or the future compensation policy. It must then immediately publish information on the Company's website indicating how it has responded to the vote at the Shareholders' Meeting and report on this at the next Shareholders' Meeting.

Shareholders are invited to express their opinion on the compensation of the Chairman of the Board and the Chief Executive Officer for the fiscal year 2016 on the occasion of the Ordinary Shareholders' Meeting on April 28, 2017.

On the occasion of the General Meeting of Shareholders of April 29, 2016, the resolution on the compensation of the Chairman was approved by a 97.76% vote, and that for the Chief Executive Officer by a 99.99% vote, these two compensations being calculated according to the same criteria.

It is planned to conduct this shareholder consultation for the last time on the occasion of the General Meeting of Shareholders of April 28, 2017. It will then be replaced by the procedure provided for under the December 9, 2016 Sapin II Act, which is described in the next section.

Ex-Ante and Ex-Post Shareholder Approval of Company Officers' Compensation

Article 161 of the December 9, 2016 Sapin II Act (codified in article L. 225-37-2 of the French Commercial Code), henceforward requires a binding annual ex-ante vote by the General Meeting of Shareholders 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. The Act further requires a binding annual ex-post vote on the amount of compensation granted to the Company Officers in respect of the prior year. This vote must take place at least once a year, whenever the approved principles and criteria are modified, and at each renewal of a Company Officer's appointment.

The ex-ante vote applies as from the General Meeting of April 28, 2017, and the corresponding ex-post vote as from the General Meeting of fiscal year 2017.

In the event of failure of the ex-ante vote, the principles and criteria previously approved by the General 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 components of variable or exceptional component cannot be paid to the person concerned.

3.2. Other Directors than Company Officers

Directors who are not Company Officers—*i.e.* the three independent Directors—receive no form of compensation other than Directors' fees.

3.3. Directors' Fees

The Board has decided to comply with the corresponding recommendation of the AFEP-MEDEF Code, starting in fiscal 2016, by:

- 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 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's specialized Committees;
- apportioning an additional amount to the Chairs of the Audit Committee and the Compensation Committee (André Harari, 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.

The apportionment of Directors' fees in respect of fiscal year 2016 is documented in the Board of Directors' Management Discussion, to which this report is appended.

Until that date, Directors' fees approved annually by the Shareholders' Meeting were apportioned equally among the Directors.

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

The Company had applied this method of apportionment, distributing the fees equally among the Directors and with no variable portion, for very many years. It had

proved its effectiveness and reinforced the collegiate sense and spirit of solidarity among the Directors. It acknowledged the Directors' 100% attendance rate at Board meetings and the 100% attendance rate at meetings of the Board Committees. Moreover, Directors received no additional attendance fees for their attendance at meetings of the Audit, Compensation and Strategic Committees.

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

The Board of Directors decided on May 23, 2006, in keeping with the rules on corporate governance and, since its publication, with the AFEP-MEDEF Code, to prohibit members of the corporate management and 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 in the European Market Abuse Regulation (MAR), along with the AMF recommendation of October 26, 2016.
However, as the High Committee on Corporate Governance was inclined to accept it in its 2015 report, the Company until now 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 European MAR 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 European Market Abuse Regulation 537/2014 of April 16, 2014, 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 Regulation EU No. 596/2016 on market abuse (MAR) 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 since June 2016, 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 the ANSA and to draw up the guide to procedures specific to Lectra, to draw up and maintain up to date lists of permanent and occasional insiders, and to notify these people 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.

5. 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 General Meetings department of Société Générale of a certificate of attendance noting the registration of the shares in the register of bearer shares at zero hour, Paris time, on the 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 giving 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 website at www.lectra.com at least twenty-one days before the time of these Meetings. These documents are also obtainable on request, free of charge, from the Company.
Written questions for submission to the Meeting may be addressed to the Company at its headquarters: 16-18, rue Chalgrin, 75016 Paris, or by electronic mail at the following 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.
All correspondence and proxy voting forms sent by post must reach Société Générale on the day prior to the date of the Meeting at the latest.
As required in article R. 225-79 of the French Commercial Code, notification of designation and revocation of a proxy may also be communicated electronically, by sending an electronically signed mail, employing a reliable procedure for identification of the shareholder guaranteeing that the notification was effectively sent by the said shareholder, to investor.relations@lectra.com.

Shareholders holding a fraction of the capital defined in articles L. 225-102 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.
Practical details pertaining to the above will be communicated in the notice of Meeting sent to the shareholders.

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

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

André Harari
Chairman of the Board of Directors
February 23, 2017

STATEMENT OF FINANCIAL POSITION
consolidated

ASSETS

At December 31 (in thousands of euros)		2016	2015
Goodwill	note 6	33,334	32,769
Other intangible assets	note 7	4,179	4,890
Property, plant and equipment	note 8	21,317	19,706
Non-current financial assets	note 9	2,351	2,100
Deferred tax assets	note 11	9,323	8,696
Total non-current assets		**70,504**	**68,161**
Inventories	note 12	25,491	23,326
Trade accounts receivable	note 13	60,076	53,404
Other current assets	note 14	30,695	31,493
Cash and cash equivalents		75,696	59,347
Total current assets		**191,958**	**167,570**
Total assets		**262,462**	**235,731**

EQUITY AND LIABILITIES

(in thousands of euros)		2016	2015
Share capital	note 15	31,248	30,786
Share premium	note 15	10,912	9,018
Treasury shares	note 15	(91)	(203)
Currency translation adjustments	note 16	(8,537)	(8,194)
Retained earnings and net income		99,052	81,547
Total equity		**132,583**	**112,954**
Retirement benefit obligations	note 17	8,943	8,420
Borrowings, non-current portion	note 18	–	–
Total non-current liabilities		**8,943**	**8,420**
Trade and other current payables	note 19	59,280	57,561
Deferred revenues	note 20	53,854	50,325
Current income tax liabilities	note 11	4,420	3,561
Borrowings, current portion	note 18	–	–
Provisions for other liabilities and charges	note 21	3,382	2,910
Total current liabilities		**120,936**	**114,357**
Total equity and liabilities		**262,462**	**235,731**

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

INCOME STATEMENT
consolidated

Twelve months ended December 31 (in thousands of euros)		2016	2015
Revenues	note 24	**260,162**	**237,886**
Cost of goods sold	note 25	(68,417)	(58,580)
Gross profit	note 25	**191,745**	**179,306**
Research and development	note 26	(15,451)	(14,317)
Selling, general and administrative expenses	note 27	(139,013)	(133,169)
Income from operations		**37,281**	**31,820**
Financial income	note 30	153	245
Financial expenses	note 30	(454)	(462)
Foreign exchange income (loss)	note 31	(462)	(487)
Income before tax		**36,518**	**31,116**
Income tax	note 11	(9,856)	(7,738)
Net income		**26,662**	**23,377**
(in euros)			
Earnings per share	note 32		
– basic		0.86	0.76
– diluted		0.84	0.74
Shares used in calculating earnings per share			
– basic		30,981,579	30,625,563
– diluted		31,794,646	31,498,591

STATEMENT OF COMPREHENSIVE INCOME

Twelve months ended December 31 (in thousands of euros)		2016	2015
Net income		**26,662**	**23,377**
Currency translation adjustments	note 16	(555)	224
Tax effect		212	85
Other comprehensive income to be reclassified in net income		**(343)**	**309**
Remeasurement of the net liability arising from defined benefits pension plans	note 17	(146)	398
Tax effect		40	(108)
Other comprehensive income not to be reclassified in net income		**(106)**	**290**
Total other comprehensive income		**(449)**	**599**
Comprehensive income		**26,213**	**23,976**

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)		2016	2015
I – OPERATING ACTIVITIES			
Net income		26,662	23,377
Net depreciation, amortization and provisions		7,652	7,276
Non-cash operating expenses	note 36	(1,515)	(553)
Loss (profit) on sale of fixed assets		90	(5)
Changes in deferred income taxes	note 11	(161)	(393)
Changes in inventories		(2,657)	(2,618)
Changes in trade accounts receivable		(3,251)	(2,593)
Changes in other current assets and liabilities		3,717	5,159
Net cash provided by (used in) operating activities	note 37	**30,537**	**29,650**
II – INVESTING ACTIVITIES			
Purchases of intangible assets	note 7	(1,217)	(2,083)
Purchases of property, plant and equipment	note 8	(5,404)	(6,134)
Proceeds from sales of intangible assets and property, plant and equipment		31	58
Acquisition cost of activities purchased	note 2	(962)	–
Purchases of financial assets	note 9	(3,485)	(2,740)
Proceeds from sales of financial assets	note 9	3,332	2,787
Net cash provided by (used in) investing activities		**(7,705)**	**(8,112)**
III – FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	note 15	2,354	2,194
Dividends paid	note 4	(9,274)	(7,646)
Purchases of treasury shares	note 15	(3,177)	(2,629)
Sales of treasury shares	note 15	3,411	2,603
Repayments of long-term and short-term borrowings	note 38	–	(394)
Net cash provided by (used in) financing activities		**(6,686)**	**(5,872)**
Increase (decrease) in cash and cash equivalents		**16,146**	**15,666**
Cash and cash equivalents at opening		**59,347**	**43,484**
Increase (decrease) in cash and cash equivalents		16,146	15,666
Effect of changes in foreign exchange rates		203	197
Cash and cash equivalents at closing		**75,696**	**59,347**
Free cash flow	note 39	**23,794**	**21,538**
Income tax (paid) / reimbursed, net		(5,326)	(4,262)
Interest paid		–	–

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			Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
		Number of shares	Par value per share	Share capital					
Balance at January 1, 2015		**30,329,114**	**1.00**	**30,329**	**7,282**	**(133)**	**(8,503)**	**65,327**	**94,302**
Net income								23,377	23,377
Other comprehensive income							309	290	599
Comprehensive income							**309**	**23,667**	**23,976**
Exercised stock options	note 15	457,285	1.00	457	1,737				2,194
Fair value of stock options	note 15							167	167
Sale (purchase) of treasury shares	note 15					(70)			(70)
Profit (loss) on treasury shares	note 15							30	30
Dividend paid								(7,646)	(7,646)
Balance at December 31, 2015		**30,786,399**	**1.00**	**30,786**	**9,018**	**(203)**	**(8,194)**	**81,547**	**112,955**
Net income								26,662	26,662
Other comprehensive income							(343)	(106)	(449)
Comprehensive income							**(343)**	**26,556**	**26,213**
Exercised stock options	note 15	461,155	1.00	461	1,893				2,354
Fair value of stock options	note 15							142	142
Sale (purchase) of treasury shares	note 15					112			112
Profit (loss) on treasury shares	note 15							81	81
Dividend paid								(9,274)	(9,274)
Balance at December 31, 2016		**31,247,554**	**1.00**	**31,248**	**10,912**	**(91)**	**(8,537)**	**99,052**	**132,583**

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 23, 2017 and will be proposed to the Shareholders' Meeting for approval on April 28, 2017.

NOTE 1 BUSINESS ACTIVITY

Lectra, established in 1973 and listed since 1987 on Euronext, is the world leader in integrated technology solutions—software, automated cutting equipment, and associated services—specifically designed for industries using fabrics, leather, technical textiles, and composite materials to manufacture their products. Lectra serves major global markets: fashion and apparel, automotive, and furniture as well as a broad array of other industries, including aeronautical and marine industries, and wind power.

Lectra's full-line and innovative solutions—specific to each market—enable customers to automate and optimize product design, development, and manufacturing (such as garments, seats, airbags and sofas). For the fashion and apparel industry, Lectra's software applications also facilitate the management of collections and cover the entire product lifecycle (PLM, Product Lifecycle Management).

With 1,550 employees, Lectra has developed privileged and long-term relationships with prestigious customers in over 100 countries, contributing to their operational excellence, and provides them with solutions.

Worldwide Presence

Based in France, the Group has been present worldwide since the mid-1980s. It serves customers through an extensive network of 33 sales and services' subsidiaries from which Lectra directly generated 92% of its revenues in 2016. This unrivalled network is backed by agents and distributors in some regions.

Customers

From global corporations to smaller national companies, Lectra supports customers as they seek to overcome major strategic challenges including: cutting costs and boosting productivity; reducing time-to-market; effectively managing globalization; developing secure smart communications; enhancing quality; satisfying the growing demand for mass-customization; and boosting their corporate brands.

Products and Services

The Group markets end-to-end integrated technology solutions: software, automated cutting equipment and services, which include technical maintenance, training and consulting; and sales of consumables and parts.

All Lectra software and equipment is designed and developed in-house. Equipment is assembled from parts produced to a rigorous standard by an international network of sub-contractors and tested in the company's industrial facilities in Bordeaux-Cestas (France) where most of Lectra's R&D is conducted.

People

Lectra's strength lies in the skills and experience of our employees. They are located worldwide, and encompass expert R&D, technical and sales teams with a deep knowledge of their customers' businesses.

Lectra is geographically close to its customers wherever they are, with nearly 850 global employees committed to marketing, sales and services, and 270 engineers entirely dedicated to R&D, while 150 employees work in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Call Centers

Lectra's five international Call Centers, in Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) and Shanghai (China) cover Europe, North America and Asia.

Lectra's full range of technologies is showcased at the company's International Advanced Technology & Conference Center in Bordeaux-Cestas (France) for European and international visitors; for North and South America at a showroom in Atlanta (USA); and for the Asia Pacific region at a showroom in Shanghai (China).

BUSINESS MODEL

Lectra's business model is based on three pillars:
– a balance of risks, which benefit from natural hedging by the distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and by 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 and consumables and parts, a key factor in the company's stability, that provide a cushion in periods of difficult economic conditions;
– the generation of significant annual free cash flow.

NOTE 2 ACCOUNTING RULES AND METHODS

NOTE 2.1 CURRENT ACCOUNTING STANDARDS AND INTERPRETATIONS

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:
http://ec.europa.eu/finance/company-reporting/ifrs-financial-statements/index_en.htm.
The consolidated financial statements at December 31, 2016 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2015 financial statements. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 23, 2017 and audited by the Statutory Auditors.
The standards and interpretations adopted by the European Union whose application is required for fiscal years starting from January 1, 2016 have no impact on the Group's financial statements.
The Group has not early adopted any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2016, or that have not yet been adopted by the European Union at December 31, 2016.
It is currently evaluating the impacts of the adoption of IFRS 15—Revenue from Contracts with Customers, and IFRS 9—Financial Instruments, which would be applicable from January 1, 2018, as well as IFRS 16—Leases, which would be applicable from January 1, 2019, provided it is adopted by the European Union.

NOTE 2.2 CURRENT ASSETS AND LIABILITIES

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 in the income statement;
– 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. The Group uses such instruments to hedge its foreign exchange risks and recognizes them at fair value in the income statement, and to hedge interest-rate risk, and then recognizes them at fair value in other comprehensive income (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 a Cash Generating Unit (CGU) defined as being a sales subsidiary or group of more than one sales subsidiaries, being sufficiently autonomous to generate cash inflows independently.
Taking into account expected future revenue streams, goodwill is tested for possible impairment loss 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.
The Group's main information system progressively implemented in the subsidiaries since January 1, 2007 has been amortized on a straight-line basis over eight years, corresponding to their useful life as determined by the Group for this intangible asset.
Other purchased management information software packages are amortized on a straight-line basis over three years.
In addition to expenses incurred in the acquisition of software licenses, the Group also activates direct software development and configuration costs, comprising personnel costs for personnel involved in development of the software and external expenses directly relating to these items.

Patents and Trademarks

Patents, trademarks and associated costs are amortized on a straight-line basis over three to ten years from the date of registration. The amortization period reflects the rate of consumption by the company of the economic benefits generated by the asset. The Group is not dependent on any patents or licenses that it does not own.
In terms of intellectual property, no patents or other industrial property rights belonging to the Group are currently under license to third parties.
The rights held by the Group, notably with regard to software specific to its business as a software developer and publisher, are used under license by its customers within the framework of sales activity.
The Group does not activate any internally-generated expense relating to patents and trademarks.

Other

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

NOTE 2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less accumulated depreciation and impairment, if any.
When a tangible asset comprises significant components with different useful lives, the latter are analyzed separately. Consequently, costs incurred in replacing or renewing a component of a tangible asset are booked as a distinct asset. The carrying value of the component replaced is written-off.
Moreover, the Group considers that there is no residual value on its assets. At each closing date, the useful life of assets is reviewed and adjusted as required.
Subsequent expenditures relating to a tangible asset are capitalized if they increase the future economic benefits of the specific asset to which they are attached. All other costs are expensed directly at the time they are incurred.

Financial expense is not included in the cost of acquisition of tangible assets. Investment grants received are deducted from the value of tangible assets. Depreciation is computed on this net amount.
Losses or gains on disposals of assets are recognized in the income statement under caption "Selling, general and administrative expenses".
Depreciation is computed on the straight-line method over their estimated useful lives as follows:
- buildings and building main structures: 20-35 years;
- secondary structures and building installations: 15 years;
- fixtures and installations: 5-10 years;
- land arrangements: 5-10 years;
- technical installations, equipment and tools: 4-10 years;
- office equipment and computers: 3-5 years;
- office furniture: 5-10 years.

NOTE 2.6 FIXED 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 thorough reviewing. Impairment tests are carried out systematically at least once a year.

Goodwill

Goodwill is tested for impairment by comparing its carrying value with the recoverable amount of the Cash Generating Unit (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 cash-generating unit) with its recoverable amount. If the latter is lower than the carrying value, an impairment charge equal to the difference between these two amounts is recognized. The base and the schedule of amortization/depreciation of the assets concerned are reduced if a loss is recognized, the resulting charge being recorded as an amortization/depreciation charge under "Cost of goods sold", or "Selling, general and administrative expenses" in the income statement depending on the nature and use of the assets concerned.

NOTE 2.7 NON-CURRENT FINANCIAL ASSETS

This item mainly comprises investments in subsidiaries and receivables relating to financial investments in unconsolidated companies.
Investments in subsidiaries are classified as available for sale securities, as required by IAS 39. They are recognized at fair value.
Non-current financial assets are tested for impairment annually on the basis of the net asset value of the related companies.

NOTE 2.8 DEFERRED INCOME TAX

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

NOTE 2.9 INVENTORIES

Inventories of raw materials are valued at the lower of purchase cost (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 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 in the income statement.

NOTE 2.12 CAPITAL MANAGEMENT POLICY

In managing its capital, the Group seeks to achieve the best possible return on capital employed.
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 (with the exception of the Chairman of the Board of Directors and the Chief Executive Officer). 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 non-current portion of borrowings and financial debt comprises the portion due in more than one year of:
– the interest-bearing bank loans;
– non-interest bearing reimbursable advances corresponding to R&D grants.
The current portion of borrowings and financial debt comprises:
– the portion of bank loans, reimbursable advances and other borrowings and financial debt due in less than one year;
– cash facilities, where applicable.
Borrowings and financial debts are recognized initially at fair value.
At closing date, borrowings and financial debt are stated at amortized cost using the effective interest rate method, defined as the rate whereby cash received equals the total cash flows relating to the servicing of the borrowing. Interest expenses on the bank loans and on the utilization of cash credit facilities are recognized as financial expenses in the income statement.

NOTE 2.15 RETIREMENT 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 (revised).

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 (revised).

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.

Provisions for Warranties

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

Revenues from sales of hardware are recognized when the significant risks and benefits relating to ownership are transferred to the purchaser.

For hardware, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms. For software, these conditions are generally fulfilled at the time of installation of the software on the customer's computer (either by CD-ROM or downloading).

Revenues from software evolution contracts and recurring services contracts are billed in advance, and their booking is spread over the duration of the contracts. Revenues from the billing of services not covered by recurring contracts are recognized at the time of performance of the service or, where appropriate, on a percentage of completion basis.

NOTE 2.19 COST OF GOODS SOLD

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

NOTE 2.20 RESEARCH AND DEVELOPMENT

The technical feasibility of software and hardware developed by the Group is generally not established until a prototype has been produced or until feedback is received from its pilot sites, 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 note 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 35 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 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the financial statements in accordance with IFRS demands that certain critical accounting estimates be made. Management is also required to exercise its judgment in applying the Group's accounting policies. Although such estimates are made in a particularly uncertain environment, their relevance is supported by the Group's business model features.

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, relates to goodwill impairment (see note 6) and deferred taxation (see note 11.3).

NOTE 2.27 TRANSLATION METHODS

Translation of Financial Statements of Foreign Subsidiaries

Most subsidiaries' functional currency is the local currency, which corresponds to the currency in which the majority of their transactions are denominated.
Accounts of foreign companies are translated as follows:
– assets and liabilities are translated at the official year-end closing rates;
– reserves and retained earnings are translated at historical rates;
– income statement items are translated at the average monthly exchange rates for the year for revenues and cost of products and services sold, and at the annual average rate for all other income statement items other than in the case of material transactions;
– items in the cash flow statement are translated at the annual average exchange rate. Thus, movements in short-term assets and liabilities are not directly comparable with the corresponding movements in the statement of financial position, due to the currency translation impact, which is shown under a separate heading in the cash flow statement: "Effect of changes in foreign exchange rates";
– gains or losses arising from the translation of the net assets of foreign consolidated subsidiaries, and those derived from the use of average exchange rates to determine income or loss, are recognized in "Currency translation adjustment" in 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 one euro)	2016	2015
British pound		
Annual average rate	0.82	0.73
Closing rate	0.86	0.73
Chinese yuan		
Annual average rate	7.35	6.97
Closing rate	7.31	7.07
Japanese yen		
Annual average rate	120	134
Closing rate	123	131
US dollar		
Annual average rate	1.11	1.11
Closing rate	1.05	1.09

NOTE 2.28 CONSOLIDATION METHODS

The consolidated financial statements include the accounts of the parent company Lectra SA and the subsidiaries the Group controls. A company is deemed to be controlled when the Group has the power to determine, either directly or indirectly, the financial and operating policies of the company such as to benefit from the said company's operations.

Subsidiaries are fully consolidated from the date of transfer of control over them to the Group. They are removed from consolidation from the date at which it ceases to control them or at which these entities are liquidated.

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 (not consolidated) in the schedule.

Companies are consolidated on the basis of company documents and financial statements drawn up in each country and restated in accordance with the aforementioned accounting rules and methods.

All intra-Group balances and transactions, together with unrealized profits arising from these transactions, are eliminated upon consolidation.

All consolidated companies close their annual financial statements at December 31.

Scope of Consolidation

At December 31, 2016, the Group's scope of consolidation comprised Lectra SA together with 29 fully-consolidated companies.

In September 2016, the Group liquidated its subsidiary Humantec Industriesysteme GmbH (Huisheim, Germany), which had had no activity for years. This winding up had no impact on the statement of financial position, income statement or cash position of the Group.

In June 2016, the company established a new subsidiary in Vietnam, with a view to continuing its development in Asia.

Fully consolidated since June 30, 2016 in the Group's financial statements, Lectra Vietnam assumed on July 1, 2016 the assets of the agent who had previously represented Lectra in Vietnam for many years. The cost of the purchase of this activity is shown in the statement of cash flows under "Acquisition cost of activities purchased". The impact on the income statement and the statement of financial position of the Group was immaterial, the bulk of sales in this country having been until then billed by Lectra SA.

In October 2015, the company had created a new subsidiary, Lectra Tunisie CP, whose only business is the sale of consumables and parts in Tunisia. Up until October 1, 2015, this activity had been managed and invoiced directly by Lectra SA in France, as the existing subsidiary Lectra Tunisie is limited to selling services. The impact of the creation of Lectra Tunisie CP on the income statement and the statement of financial position of the Group was immaterial.

There was no other change in the scope of consolidation in 2016 and 2015.

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.

Company	City	Country	% of ownership and control 2016	% of ownership and control 2015	Consolidation method[1] 2016	Consolidation method[1] 2015
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
Humantec Industriesysteme GmbH	Huisheim	Germany	-	100.0	-	FC
Lectra Hellas EPE	Athens	Greece	99.9	99.9	FC	FC
Lectra Technologies India Private Ltd	Bangalore	India	100.0	100.0	FC	FC
Lectra Italia SpA	Milan	Italy	100.0	100.0	FC	FC
Lectra Japan Ltd	Osaka	Japan	100.0	100.0	FC	FC
Lectra Systèmes SA de CV	Mexico	Mexico	100.0	100.0	FC	FC
Lectra 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	Ho Chi Minh City	Vietnam	100.0	-	FC	-
Lectra Chile SA	Santiago	Chile	99.9	99.9	NC	NC
Lectra Israel Ltd	Natanya	Israel	100.0	100.0	NC	NC
Lectra Philippines Inc.	Manila	Philippines	99.8	99.8	NC	NC
Lectra Singapore Pte Ltd	Singapore	Singapore	100.0	100.0	NC	NC

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

NOTE 3 RISK MANAGEMENT POLICY

The Group's risk management policy contained in these notes to the consolidated financial statements is mainly discussed in the Management Discussion of the Board of Directors, in chapter 4, Risk Factors—Management of Risks, in chapter 14, Business Trends and Outlook, and in the Chairman's Report on Internal Control Procedures and Risk Management, and on Corporate Governance, in Chapter 2, Internal Control and Risk Management Procedures Established by the Company, to which readers are referred.

NOTE 3.1 SPECIFIC FOREIGN EXCHANGE RISKS—DERIVATIVE FINANCIAL INSTRUMENTS

Exchange rate fluctuations impact the Group at two levels.

Competitive Impact

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.

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. Consequently, all changes in the value of these instruments offset foreign exchange gains and losses on the re-measurement of these receivables and debts. However, these hedges are not treated as hedge accounting under IAS 39.

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

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

NOTE 3.2 INTEREST RATE RISK

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 6% of consolidated revenues over the last three-year period 2014-2016, 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. This risk is heightened in the context of the economic crisis and 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 risks arises 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 and time deposits held with blue-chip international banks. The foreign exchange risk-hedging contracts are negotiated exclusively in France with the three company's 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 six-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 28, 2017 to declare a dividend of €0.35 per share in 2017 in respect of fiscal year 2016.
The company declared a dividend of €0.30 per share in 2016, in respect of fiscal year 2015.

TAX ON DIVIDENDS

The Second Supplementary Budget Act for 2012 *(deuxième loi de finances rectificative pour 2012)*, dated August 16, 2012, has instituted a tax on dividends in the form of an additional contribution to income tax equal to 3% of the amounts distributed by companies subject to income tax in France. It applies to all dividends paid with effect from August 17, 2012 and must be recognized at the time of approval of the dividends by the Board of Directors.
A tax expense of €278,000 has been recognized on dividends paid in 2016 in respect of fiscal year 2015. This amount was fully recognized in the income statement, as per IAS 12 (€229,000 in 2015).

NOTE 5 POST-CLOSING EVENTS

No significant event has occurred since December 31, 2016.

NOTE 6 GOODWILL

In June 2016, the company established a new subsidiary in Vietnam, which assumed on July 1, 2016 the assets of the agent who had previously represented Lectra in Vietnam for many years. This purchase of assets and liabilities related to the agent's activities generated goodwill for €455,000 at 2016 closing rate.
The liquidation of Humantec, in September 2016 (see note 2.28) had no impact on the Group's goodwill.
The creation, in October 2015, of Lectra Tunisie CP (see note 2.28) had no impact either.
No other acquisition was made in fiscal years 2016 or 2015.
All past acquisitions have been paid for in full, and no further earn-out is due on these transactions.

	2016	2015
Book value at January 1	**32,769**	**31,724**
Change in scope of consolidation[1]	447	–
Exchange rate differences	117	1,045
Book value at December 31	**33,334**	**32,769**

(1) Integration of Lectra Vietnam, see note 2.28.

Cash Generating Units (CGU) have been defined as a sales subsidiary or group of more than one sales subsidiary sharing common resources; these CGUs are sufficiently autonomous to generate cash inflows independently. Operating segments as defined in note 35 correspond to groups of these CGUs.
Goodwill shown in the statement of financial position was subjected to impairment testing in December 2016. The projections used are based on the 2017-2019 plan for each CGU based on actual 2016 cash flows and on forecast trends in each market concerned and, beyond 2019, 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 2017-2019 plan;
– the normative cost of debt is determined on the basis of average market conditions for the fourth quarter of 2016 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.
An identical valuation of the CGUs would result from applying a pre-tax discount rate to pre-tax cash flows.

At December 31, 2016, goodwill and discount rates used in impairment testing were allocated as follows among the different CGUs:

	2016		2015	
	Discount rate	Goodwill	Discount rate	Goodwill
Italy	6.4%	12,004	6.5%	12,004
France	6.4%	2,324	6.9%	2,324
Germany	6.4%	4,631	6.5%	4,631
Northern Europe	6.4%	1,590	6.9%	1,590
United Kingdom	6.5%	1,256	7.0%	1,465
Portugal	6.5%	220	6.6%	220
Total Europe		**22,025**		**22,234**
North America	9.8%	7,714	8.4%	7,469
South America	16.4%	512	11.6%	496
Total Americas		**8,226**		**7,965**
Japan	6.5%	458	6.1%	431
Greater China	9.0%	730	8.8%	706
Other Asian Countries[1]	9.1%	1,528	8.4%	1,066
Total Asia		**2,716**		**2,203**
Other Countries	12.5%	**368**	12.5%	**368**
Total		**33,334**		**32,769**

(1) Integration of Lectra Vietnam in 2016, see note 2.28.

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 2017-2019 plan;
- a 1 percentage point decline in the gross profit margin assumptions used in the drawing up of the 2017-2019 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

2015	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2015	**22,356**	**1,909**	**1,116**	**25,381**
External purchases	1,279	123	–	1,402
Internal developments	681	–	–	681
Write-offs and disposals	(858)	(8)	(80)	(945)
Exchange rate differences	59	–	8	66
Gross value at December 31, 2015	**23,517**	**2,024**	**1,044**	**26,585**
Amortization at December 31, 2015	**(18,934)**	**(1,770)**	**(991)**	**(21,695)**
Net value at December 31, 2015	**4,583**	**254**	**53**	**4,890**

2016	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2016	**23,517**	**2,024**	**1,044**	**26,585**
External purchases	801	49	6	856
Internal developments	361	–	–	361
Write-offs and disposals	(2,264)	(327)	(4)	(2,595)
Transfers	157	(13)	(144)	–
Exchange rate differences	35	–	6	42
Gross value at December 31, 2016	**22,607**	**1,732**	**909**	**25,249**
Amortization at December 31, 2016	**(18,648)**	**(1,540)**	**(882)**	**(21,070)**
Net value at December 31, 2016	**3,959**	**192**	**27**	**4,179**

Changes in amortization:

2015	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2015	**(18,258)**	**(1,676)**	**(1,041)**	**(20,975)**
Amortization charges	(1,498)	(99)	(25)	(1,621)
Amortization write-backs	858	4	80	942
Exchange rate differences	(36)	–	(6)	(42)
Amortization at December 31, 2015	**(18,934)**	**(1,770)**	**(991)**	**(21,695)**

2016	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2016	**(18,934)**	**(1,770)**	**(991)**	**(21,695)**
Amortization charges	(1,814)	(101)	(10)	(1,925)
Amortization write-backs	2,261	318	4	2,583
Transfers	(137)	13	124	–
Exchange rate differences	(24)	–	(8)	(33)
Amortissements au 31 décembre 2016	**(18,648)**	**(1,540)**	**(882)**	**(21,070)**

INFORMATION MANAGEMENT SOFTWARE

As part of an ongoing process of upgrading and reinforcing its information systems, in 2016 and 2015 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.
Write-offs and disposals of intangible assets mainly concern the scrapping of obsolete software.

OTHER INTANGIBLE ASSETS

At December 31, 2016, nearly all of the other intangible assets were fully amortized several years ago. The net residual value of these intangible assets was €27,000.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

2015	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2015	**11,641**	**16,919**	**23,544**	**52,105**
Additions	1,436	1,749	2,949	6,134
Write-offs and disposals	–	(1,069)	(1,943)	(3,012)
Transfers[1]	–	–	806	806
Exchange rate differences	24	243	156	422
Gross value at December 31, 2015	**13,101**	**17,842**	**25,511**	**56,454**
Accumulated depreciation at December 31, 2015	**(6,842)**	**(12,190)**	**(17,716)**	**(36,748)**
Net value at December 31, 2015	**6,259**	**5,652**	**7,795**	**19,706**

(1) In 2015, the Group had transferred to fixed assets equipment prototypes under development, which were previously accounted for as inventory.

2016	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2016	**13,101**	**17,842**	**25,511**	**56,454**
Additions	793	2,357	2,254	5,404
Change in scope of consolidation[1]	–	–	7	7
Write-offs and disposals	(16)	(1,348)	(1,471)	(2,835)
Exchange rate differences	8	43	118	168
Gross value at December 31, 2016	**13,886**	**18,894**	**26,418**	**59,198**
Accumulated depreciation at December 31, 2016	**(6,984)**	**(11,962)**	**(18,936)**	**(37,881)**
Net value at December 31, 2016	**6,902**	**6,932**	**7,483**	**21,317**

(1) Integration of Lectra Vietnam, see note 2.28.

Changes in depreciation:

2015	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2015	**(6,724)**	**(11,996)**	**(16,937)**	**(35,658)**
Additional depreciation	(118)	(1,102)	(2,592)	(3,813)
Write-offs and disposals	–	1,066	1,896	2,961
Transfers	–	–	–	–
Exchange rate differences	–	(157)	(82)	(239)
Accumulated depreciation at December 31, 2015	**(6,842)**	**(12,190)**	**(17,716)**	**(36,748)**

2016	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2016	**(6,842)**	**(12,190)**	**(17,716)**	**(36,748)**
Additional depreciation	(151)	(962)	(2,595)	(3,708)
Write-offs and disposals	10	1,220	1,447	2,678
Exchange rate differences	(0)	(30)	(72)	(102)
Accumulated depreciation at December 31, 2016	**(6,984)**	**(11,962)**	**(18,936)**	**(37,881)**

LAND AND BUILDINGS

"Land and buildings" pertain mostly to the Group's industrial facilities in Bordeaux-Cestas (France), amounting to a gross value of €13,127,000, net of investment grants received and to a net value of €6,175,000 at December 31, 2016. They also include the offices of Lectra Korea, located in Seoul, purchased on May 1, 2014, for a gross amount of €759,000 at December 31, 2016 closing rate.
The facilities in Bordeaux-Cestas cover an area of 11.6 hectares (28.7 acres) and the buildings represent 32,000 sq. m. (345,000 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 2016, they related to the rehabilitation of buildings. In 2015, they mainly concerned the construction of a new building for R&D on CAD/CAM equipment.
At December 31, 2016, the land (non-depreciable) is valued at €998,000. The buildings total a gross value of €12,888,000, already €6,984,000 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 €18,894,000 and for a net amount of €6,932,000 at December 31, 2016.
Investments have been made in fixtures and fittings in 2016 (€2,357,000) and in 2015 (€1,749,000) throughout the Group. In 2016, they related to the rehabilitation of buildings on the Bordeaux-Cestas facilities. In 2015, they mainly concerned the construction of the new building for R&D on CAD/CAM equipment.

EQUIPMENT AND OTHER

Other fixed assets purchased in 2016 and 2015 mainly concerned computer equipment and manufacturing molds and tools for the Bordeaux-Cestas industrial facility.

NOTE 9 NON-CURRENT FINANCIAL ASSETS

2015	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2015	2,251	1,213	3,463
Additions	–	2,740	2,740
Disposals	–	(2,777)	(2,777)
Exchange rate differences	–	43	43
Gross value at December 31, 2015	2,251	1,219	3,470
Impairment provision at December 31, 2015	(1,369)	–	(1,369)
Net value at December 31, 2015	881	1,219	2,100

2016	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2016	2,251	1,219	3,470
Additions	–	3,485	3,485
Disposals	–	(3,284)	(3,284)
Exchange rate differences	–	3	3
Gross value at December 31, 2016	2,251	1,423	3,674
Impairment provision at December 31, 2016	(1,322)	–	(1,322)
Net value at December 31, 2016	928	1,423	2,351

INVESTMENTS IN SUBSIDIARIES

"Investments in subsidiaries" exclusively concern companies not included in the scope of consolidation.
At December 31, 2016, four 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).

OTHER NON-CURRENT FINANCIAL ASSETS

"Other non-current financial assets" at December 31, 2016 primarily consisted of deposits and guarantees for €911,000 (€941,000 at December 31, 2015), together with the amount of €512,000 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 2016 or December 31, 2016, as applicable.

Type of transaction	Items concerned in consolidated financial statements	Non-consolidated subsidiaries concerned	Amounts
Receivables[1]	Trade accounts receivable	Lectra Chile SA (Chile)	191
		Lectra Philippines Inc. (Philippines)	608
		Lectra Israel Ltd (Israel)	606
Payables[1]	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	(935)
		Lectra Philippines Inc. (Philippines)	(9)
		Lectra Israel Ltd (Israel)	(40)
Sales[2]	Revenues	Lectra Chile SA (Chile)	142
		Lectra Israel Ltd (Israel)	6
		Lectra Philippines Inc. (Philippines)	143
Purchases[2]	Cost of goods sold	Lectra Israel Ltd (Israel)	(40)
Commissions[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(177)
		Lectra Philippines Inc. (Philippines)	(46)
Personnel invoiced[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(306)
Fees[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(10)

(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

	2016	2015
Current tax income (expense)	(10,016)	(8,131)
Deferred tax income (expense)	161	393
Net tax income (expense)	**(9,856)**	**(7,738)**

The research tax credit *(crédit d'impôt recherche)* applicable in France is deducted from R&D expenses (see note 26). It amounts to €6,828,000 in 2016 (€6,936,000 in 2015).
The French *crédit d'impôt compétitivité et emploi* (competitiveness and employment tax credit) enacted in 2013 is shown as a deduction from the corresponding personnel expense (see note 28) and amounted to €827,000 in 2016 (€839,000 in 2015).
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

	2016	2015
Income before tax	**36,518**	**31,116**
Standard rate of corporate income tax in France	34.3%	34.1%
Expense at standard rate of corporate income tax in France	**(12,516)**	**(10,620)**
Effect of other countries' different tax rates	1,033	870
Effect of reduction in unrecognized deferred tax assets	2,144	1,542
Effect of tax credits[1]	2,719	2,869
Effect of CVAE[2]	(987)	(738)
Effect of other non taxable income and non deductible expenses[3]	(1,886)	(778)
Others	(363)	(883)
Net tax income / (expense)	**(9,856)**	**(7,738)**
Consolidated effective tax rate	27.0%	24.9%

(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 2016 included a €369,000 expense reflecting a re-measurement of the deferred tax position of Lectra SA, resulting from the planned reduction of the corporate income tax rate applicable in France, enacted in the 2017 Budget Act *(loi de finances pour 2017)* which will apply progressively starting in 2018. Moreover, the net income tax expense also included a reduction of unrecognized deferred tax assets of the US subsidiary for an amount of €826,000 in 2016 and €1,015,000 in 2015, following an improvement of its performances, which in turn led to a forecast of greater utilization of its tax losses.

NOTE 11.3 DEFERRED TAXES

Owing to uncertainty over the future profit-earning capacity of some subsidiaries, all or part of their tax losses and other deferred tax assets on timing differences are not recognized as deferred tax assets. The Group considers five years to be a reasonable period for the utilization of tax losses. Beyond that period, because forecasts of activity levels being deemed insufficiently reliable, the portion of their bases not expected to be utilized in the next five years is not recognized. Forecasts made in order to determine the timetable for the utilization of deferred tax losses, based on assumptions consistent with those used in the impairment tests, were established on the basis of a Group 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, 2016, unrecognized deferred tax assets totaled €2,649,000, compared with €4,111,000 at December 31, 2015. The decrease compared to December 31, 2015 mainly stems from a higher level of recognition of the deferred tax assets of the US subsidiary, following an improvement of its performances, which in turn led to a forecast of greater utilization of its tax losses.

The share of deferred taxes directly recognized in equity for the year worked out to a positive €40,000 corresponding to the tax effect of actuarial gains and losses on retirement benefit obligations booking (a negative €108,000 in 2015).

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

At December 31	2014	P&L impact	Equity impact	Translation adjustments	2015
Tax losses carry-forward	1,945	991	–	115	3,051
Depreciation/amortization of tangible and intangible assets	50	(565)	–	(47)	(562)
Impairment of accounts receivable	667	65	–	7	739
Write-down of inventories	1,627	(22)	–	149	1,754
Financial instruments	–	(85)	–	85	–
Other timing differences	3,716	9	(108)	97	3,714
Total	**8,005**	**393**	**(108)**	**406**	**8,696**

At December 31	2015	P&L impact	Equity impact	Translation adjustments	2016
Tax losses carry-forward	3,051	222	–	146	3,419
Depreciation/amortization of tangible and intangible assets	(562)	(552)	–	(59)	(1,173)
Impairment of accounts receivable	739	(189)	–	10	560
Write-down of inventories	1,754	233	–	101	2,088
Financial instruments	–	(81)	–	81	–
Other timing differences	3,714	528	40	147	4,429
Total	**8,696**	**161**	**40**	**427**	**9,323**

NOTE 11.4 SCHEDULE OF RECOGNIZED TAX LOSSES CARRY-FORWARDS

	Expiration date			
	Until 2017	Between 2018 and 2022	Beyond 2022	Total
Deferred tax assets on tax losses[1]	0	184	3,235	**3,419**

(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

	2016	2015
Raw materials	24,778	22,927
Finished goods and works-in-progress[1]	8,617	7,861
Inventories, gross value	**33,394**	**30,788**
Raw materials	(4,945)	(4,612)
Finished goods and works-in-progress[1]	(2,958)	(2,851)
Write-downs	**(7,903)**	**(7,463)**
Raw materials	19,833	18,315
Finished goods and works-in-progress[1]	5,658	5,011
Inventories, net value	**25,491**	**23,326**

(1) Including demonstration and second-hand equipment.

€358,000 of inventory fully written-down was scrapped in the course of 2016 (€550,000 in 2015), thereby diminishing the gross value and write-downs by the same amount. Inventory write-downs charged for the year amounted to €2,358,000 (€2,711,000 in 2015). Reversals of previous write-downs relating to sales transactions amounted to €1,562,000 (€2,327,000 in 2015), booked against the charges for the period.

NOTE 13 TRADE ACCOUNTS RECEIVABLE

	2016	2015
Trade accounts receivable, gross value	64,743	58,594
Provision for impairment	(4,667)	(5,190)
Trade accounts receivable, net value	**60,076**	**53,404**

Trade receivables at December 31, 2016 include €53,854,000, excluding taxes, on recurring contracts, other services and equipment billed in advance for 2017 (compared with €50,325,000, excluding taxes, at December 31, 2015 in respect of 2016). An identical amount 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, 2016, trade accounts receivable, net from deferred revenues and provision for impairment, amount to €6,222,000 (€3,079,000 at December 31, 2015).
The Group recognizes an impairment expense on trade accounts in light of an individual analysis of overdue accounts receivable. Changes in impairment charges are analyzed below:

	2016	2015
Impairment at January 1	**(5,190)**	**(4,819)**
Additional impairment	(1,552)	(2,061)
Write-back of impairment no longer required	(99)	(204)
Write-back of impairment on receivables paid	1,014	999
Write-back of impairment on irrecoverable receivables written-off	1,202	907
Exchange rate differences	(42)	(11)
Impairment at December 31	**(4,667)**	**(5,190)**

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:

	2016	2015
Receivables not yet due	52,393	46,843
Receivables due, of which due in:	12,350	11,751
– less than 1 month	3,304	3,204
– 1-3 months	2,252	1,827
– more than 3 months	6,793	6,720
Total	**64,743**	**58,594**

Almost all of the provisions of accounts receivable and related accounts amounting to €4,667,000 at December 31, 2016 concerned accounts more than three months overdue.

NOTE 14 OTHER CURRENT ASSETS

	2016	2015
Research tax credit and employment and competitiveness tax credit	21,552	23,727
Discount effect on research tax credit receivable	–	–
Other tax receivables	1,634	1,592
Income tax down-payments	3,107	2,047
Staff and social security receivables	263	201
Other current assets	4,138	3,925
Total other current assets	**30,695**	**31,493**

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. The competitiveness and employment tax credits relating to fiscal 2015 and 2016 have been entirely deducted from the corporate income tax due by Lectra SA.

Thus, at December 31, 2016, Lectra SA held a €21,552,000 receivable on the French tax administration. 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 2016 (€2,560,000), 2015 (€5,746,000), 2014 (€6,898,000) and 2013 (€6,348,000).

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 Q3 2016, it received the balance outstanding relating to the 2012 tax credit of €5,091,000 and expects to receive the reimbursement of the balance outstanding of these non-deducted tax credits as follows: in 2017 (in respect of the 2013 tax credit), 2018 (in respect of the 2014 tax credit), 2019 (in respect of the 2015 tax credit) and 2020 (in respect of the 2016 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, 2016 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, 2016 totaled €31,247,554, divided into 31,247,554 shares with a par value of €1.00. It was €30,786,399, divided into 30,786,399 shares with a par value of €1.00, at December 31, 2015.
Share capital has increased by 461,155 shares since January 1, 2016, resulting from the exercise of stock options, that is, an increase of €461,155 of share capital together with a total share premium of €1,893,000 (issuance of 457,285 shares in 2015).
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 2016 and 2015.

Note 15.1.1 Share Capital

	2016		2015	
	Number of shares	Share capital (in euros)	Number of shares	Share capital (in euros)
Share capital at January 1	**30,786,399**	**30,786,399**	**30,329,114**	**30,329,114**
Stock options exercised	461,155	461,155	457,285	457,285
Share capital at December 31	**31,247,554**	**31,247,554**	**30,786,399**	**30,786,399**

The shares comprising the capital are fully paid up.

Note 15.1.2 Share Premium

	2016	2015
Share premium at January 1	**9,018**	**7,282**
Stock options exercised	1,893	1,737
Share premium at December 31	**10,912**	**9,018**

NOTE 15.2 TREASURY SHARES

The Ordinary Shareholders' Meeting on April 29, 2016 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 has 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.

At December 31, 2016, the company held 5,085 shares, i.e. 0.02% of its capital within the framework of the liquidity agreement (compared with 0.06% at December 31, 2015) for a total of €91,000 (compared with €203,000 at December 31, 2015), representing an average purchase price of €17.96 per share, which has been deducted from shareholders' equity.
The resources allocated to the liquidity agreement also included, at December 31, 2016, the amount of €512,000. Lectra may increase the resources allocated, if necessary, by contributing up to €1,000,000 (with a maximum corresponding to the market value of 150,000 Lectra shares).
The company holds no treasury shares outside the framework of the liquidity agreement.

	2016			2015		
	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)	18,340	(203)	11.06	14,932	(133)	8.91
Liquidity agreement						
Purchases (at purchase price)	224,715	(3,177)	14.14	224,037	(2,629)	11.74
Sales (at sale price)	(237,970)	3,411	14.33	(220,629)	2,603	11.80
Net cash flow[1]	**(13,255)**	**235**		**3,408**	**(26)**	
Gains (losses) on disposals		123			43	
Treasury shares at December 31 (historical cost)	**5,085**	**(91)**	**17.96**	**18,340**	**(203)**	**11.06**

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

NOTE 15.3 VOTING RIGHTS

Voting rights are proportional to the capital represented by stock held.
However, double voting rights, subject to certain conditions, existed until May 3, 2001.
The Extraordinary Meeting of Shareholders of May 3, 2001 had decided that shares registered after May 15, 2001, together with shares purchased after that date, are not eligible for double voting rights (with the exception of special cases covered by the corresponding resolution submitted to the said Extraordinary Meeting). At their own initiative, André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer, had canceled at that time the double voting rights attached to the shares they held.
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, 2016, 30,916,510 shares qualified for normal voting rights, and only 331,044 (i.e. 1.1% 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, 2016, the theoretical total number of voting rights attached to the company's shares was 31,578,598. This number has been reduced to 31,573,513 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, 2016, 270 employees were the beneficiaries of 1,731,219 options and 46 former employees still held 32,294 options; altogether, 316 persons were beneficiaries of options (respectively 227, 48 and 275 at December 31, 2015).

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 33,011,067, made up as follows:

- share capital: 31,247,554 shares;
- stock options: 1,763,513 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, 2016, the share capital would increase by €1,763,513, together with a total issue premium of €14,333,620.

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 Meeting of Shareholders is made payable, or thirty to forty-five calendar dates after the Meeting if no dividend is declared, i.e. around June 10.

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

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

Fair value of stock options granted in 2016 and 2015 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

	2016	2015
Exercise price (in euros)	14.50	13.75
Share price on the date of allocation (in euros)	14.18	12.40
Risk-free interest rate	–0.34%	0.02%
Dividend payout rate	2.22%	1.92%
Volatility	17.70%	17.70%
Duration of options	4 years	4 years
Fair value of one option (in euros)	1.10	0.86

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

Fair value of the options granted on June 9, 2016 amounts to €670,000. It was reduced to €438,000 following the cancellation of options after the calculation of the actual performance of 2016 for each beneficiary, and the departure of four beneficiaries.

An expense of €142,000 was recognized in the 2016 financial statements, including €54,000 in respect of the grants made in 2016, and €88,000 in respect of options granted previously. Charges for the year are recognized under personnel expenses.
Plans in force at December 31, 2016 will impact the years 2017, 2018 and 2019 alone in the estimated amounts of €137,000, €108,000 and €98,000 respectively.
The Group paid a €151,000 employer's contribution based on the fair value of the options granted in 2016, fully expensed in personnel costs for 2016.

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

	2016		2015	
	Number of stock options	Average exercise price (in euros)	Number of stock options	Average exercise price (in euros)
Stock options outstanding at January 1	**1,853,250**	**6.99**	**2,121,437**	**5.80**
Stock options granted during the year	608,665	14.50	581,420	13.75
Stock options exercised during the year	(461,155)	5.11	(457,285)	4.80
Stock options expired/canceled during the year	(237,247)	14.00	(392,322)	13.17
Stock options outstanding at December 31	**1,763,513**	**9.13**	**1,853,250**	**6.99**
– of which fully vested	1,191,373	6.97	1,469,597	6.10
– for which exercise rights remain to be acquired	572,140	13.63	383,653	10.38

For plans in force at December 31, 2015 and granted before January 1, 2016, 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.
For the plan granted on June 9, 2016, the right to exercise these options vests on a single occasion at the end of the four-year period starting on January 1, 2016.

Note 15.5.2 Breakdown of Stock Options Outstanding at December 31, 2016, by Category of Beneficiaries

	2016				
	Number of beneficiaries	Number of stock options	%	Of which fully vested	Of which exercise rights remain to be acquired
Executive Committee[1]	4	590,746	33%	462,947	127,799
Group management	37	550,987	31%	334,042	216,945
Other employees	229	589,486	33%	362,090	227,396
Persons having left the company and still holding unexercised options	46	32,294	2%	32,294	–
Total	**316**	**1,763,513**	**100%**	**1,191,373**	**572,140**

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

Note 15.5.3 Breakdown of Stock Options at December 31, 2016, by Expiration Date and Exercise Price

Grant date	Expiration date	Number of stock options	Exercise price (in euros)
June 9, 2009	June 9, 2017	1,383	4.10
June 9, 2009	June 9, 2017	8,000	2.50
June 10, 2010	June 10, 2018	110,412	2.50
June 9, 2011	June 9, 2019	166,160	6.25
September 4, 2012	September 4, 2020	284,466	6.25
June 13, 2013	June 13, 2021	293,685	6.25
June 16, 2014	June 16, 2022	289,847	8.50
June 12, 2015	June 12, 2023	211,774	13.75
June 9, 2016	June 9, 2024	397,786	14.50
Total		**1,763,513**	**9.13**

Among the 32,294 options held by people having left the Group, 19,369 expire in 2017, 9,871 in 2018 and 3,054 in 2019.

Note 15.5.4 Breakdown of Stock Options for Which Exercise Rights Remain to be Acquired After December 31, 2016 by the Beneficiaries

Year of vesting	Number of stock options
2017	123,484
2018	50,870
2019	397,786
Total	**572,140**

Note 15.5.5 Absence of Stock Option Plans for Company Officers

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

Note 15.5.6 Stock Options Granted in 2016

On June 9, 2016, the Board of Directors granted a maximum number of 533,098 options, at an exercise price of €14.50 per share to 110 beneficiaries, in respect of the fulfilment of their annual performance targets set for 2016.
The definitive number of options is calculated with reference to the percentage fulfilment of targets set for each beneficiary for 2016. The options representing the difference between those initially granted and those actually granted as a result of actual performance by the beneficiaries are cancelled and placed at the disposal of the Board of Directors. At the date of this report, the calculations of actual performance in 2016, based on the Group's consolidated financial statements, have been finalized for all the beneficiaries. In light of this performance, 208,395 options have thus been cancelled. Moreover, 1,242 options have ceased to be valid due to the departure of one beneficiary in 2016. As a result, the number of options at December 31, 2016 has been reduced to 323,461 and the number of beneficiaries to 109.

The Board of Directors of June 9, 2016 also granted 75,567 options at an exercise price of €14.50 per option to 109 beneficiaries, of which 31,878 options to 59 beneficiaries of a stock option plan unrelated to their performance in 2016 and 43,689 options to the 50 winners of the 2015 Lectra Worldwide Championship (14 winners of the 2015 Lectra Worldwide Championship being beneficiaries of other options also granted in 2016). On this granting of 75,567 options, 1,242 options ceased to be valid due to the departure of three beneficiaries in 2016.
In total, the Board of Directors thus granted a maximum of 608,665 options to 205 beneficiaries, reduced to 397,786 options and 201 beneficiaries, in respect of the 2016 stock option plan, at December 31, 2016. The 10 Group employees to whom the largest number of options was granted in the course of fiscal 2016 were granted a total of 151,002 options.
All of the options granted concerned Group employees.
The right to exercise these options vests on a single occasion at the end of the four-year period starting on January 1, 2016, and is conditional upon the beneficiary's presence in the Group at December 31, 2019 (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). In the event of the departure of a beneficiary before this date, all options that were granted to the beneficiary cease to be valid.
The options are valid for a period of eight years from the date of granting.
Moreover, 24,080 options granted prior to 2016 have ceased to be valid due to the departure of the beneficiaries and 2,288 options of the 2015 plan have been cancelled following the rectification in 2016 of the calculation of the actual performance of some beneficiaries.

Note 15.5.7 Stock Options Exercised in 2016
461,155 options pertaining to the different options plans in force at December 31, 2015 were exercised in 2016.

	2016	
Grant date	Number of stock options exercised	Exercise price (in euros)
June 11, 2008	821	6.30
June 11, 2008	12,757	4.10
June 9, 2009	58,150	2.50
June 10, 2010	75,277	2.50
June 9, 2011	108,056	6.25
September 4, 2012	206,094	6.25
Total	**461,155**	**5.11**

NOTE 16 CURRENCY TRANSLATION ADJUSTMENTS

Analysis of changes recorded in 2016 and 2015:

	2016	2015
Cumulative translation adjustments at January 1	**(8,194)**	**(8,503)**
Differences on translation of subsidiaries' income statements	324	51
Adjustments required to maintain subsidiaries' retained earning at historical exchange rate	(1,181)	1,202
Other movements	514	(944)
Cumulative translation adjustments at December 31	**(8,537)**	**(8,194)**

NOTE 17 RETIREMENT BENEFIT OBLIGATIONS

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

2015	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2015	**6,325**	**1,143**	**685**	**326**	**8,479**
Expense/(income) of the year	495	19	71	62	647
Benefits paid	(59)	(116)	(127)	–	(302)
Contributions paid	–	–	–	(70)	(70)
Actuarial losses (gains)	(200)	(46)	(133)	(19)	(398)
Exchange rate differences	–	–	69	(5)	64
Retirement benefits at December 31, 2015	**6,561**	**1,000**	**565**	**294**	**8,420**

2016	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2016	**6,561**	**1,000**	**565**	**294**	**8,420**
Expense/(income) of the year	521	18	89	55	683
Benefits paid	(138)	(68)	(12)	(43)	(261)
Contributions paid	–	–	–	(46)	(46)
Actuarial losses (gains)	117	30	(8)	6	145
Exchange rate differences	–	–	33	(32)	1
Retirement benefits at December 31, 2016	**7,061**	**981**	**667**	**234**	**8,943**

Breakdown of net annual charge:

2015	France	Italy	Japan	Others	Total
Service cost provided in the year	358	–	70	41	406
Past service cost	–	–	–	1	7
Net interest cost	137	19	1	20	234
Expense/(income) of the year	**495**	**19**	**71**	**62**	**647**

2016	France	Italy	Japan	Others	Total
Service cost provided in the year	387	–	88	37	512
Past service cost	–	–	–	–	–
Net interest cost	134	18	1	18	171
Expense/(income) of the year	**521**	**18**	**89**	**55**	**683**

Main actuarial assumptions used:

	France	Italy	Japon
Discount rate	1.80%	1.35%	0.30%
Average rate of salary increase, including inflation	2.66%	2.18%	4.36%
Personnel turnover rate	1.64% / 7.18%	3.00%	12.30%

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; 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 3.1%. 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 2.8%.
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 1.64% for non-managerial grade personnel, and 7.18% for managerial grade personnel. It was 0% over 50 years of age.

NOTE 18 BORROWINGS AND FINANCIAL DEBTS

NOTE 18.1 NET CASH

	2016	2015
Cash and cash equivalents	75,696	59,347
Borrowings and financial debts	–	–
Net cash	**75,696**	**59,347**

After the repayment on March 31, 2015 of €394,000, the remainder of public grants to finance R&D programs, which were its sole debt, the Group had no remaining borrowing or financial debt. Thus, cash and cash equivalents were equal to net cash, and amounted to €75,696,000 at December 31, 2016.
The major part of cash is invested in interest-bearing sight accounts and time deposits.

NOTE 18.2 BORROWINGS BY CATEGORY AND BY MATURITY

On March 31, 2015, the Group repaid €394,000, the remaining part of advances corresponding to public grants to finance R&D programs. Since that date, the Group has been debt-free.

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 2016 and 2015, 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, 2016 and 2015 are analyzed below:

	2016				2015			
	In foreign currency[1] (in thousands)	Fair value (in thousands of euros)[2]	Difference in value[3]	Expiration date	In foreign currency[1] (in thousands)	Fair value (in thousands of euros)[2]	Difference in value[3]	Expiration date
USD	10,176	9,654	58	January 5, 2017	6,381	5,861	(27)	January 6, 2016
CAD	3,003	2,116	5	January 5, 2017	1,915	1,267	(9)	January 6, 2016
GBP	(2,156)	(2,518)	(14)	January 5, 2017	(2,059)	(2,806)	7	January 6, 2016
HKD	7,016	858	6	January 5, 2017	9,271	1,099	(10)	January 6, 2016
Other currencies	na	(1,625)	(11)	January 5, 26 and 30, 2017	na	(637)	(24)	January 6 and 7, 2016
Total		**8,484**	**44**			**4,785**	**(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, 2016 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 9% and together less than 14% 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, 2016 and December 31, 2015:

	2015					
(in thousands of currencies)	USD	BRL	CAD	GBP	RON	SGD
Carrying position to be hedged:						
Trade account receivables	21,656	10,346	1,850	(2)	324	–
Cash	237	–	–	11	–	–
Trade payables	(13,827)	(10,145)	(6)	(2,063)	–	(1,333)
Total	**8,065**	**201**	**1,844**	**(2,054)**	**324**	**(1,333)**
Net nominal of hedges	(6,381)	–	(1,915)	2,059	(316)	1,229
Net residual position	**1,684**	**201**	**(72)**	**5**	**8**	**(104)**
Equivalent value in euros at closing rate	1,547	47	(47)	7	2	(67)
Analysis of sensitivity to currency fluctuations						
Closing rate	1.09	4.31	1.51	0.73	4.52	1.54
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.14	4.53	1.59	0.77	4.75	1.62
Foreign exchange impact in P&L	(74)	(2)	2	0	0	3
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.03	4.10	1.44	0.70	4.30	1.46
Foreign exchange impact in P&L	81	2	(2)	0	0	(4)

(in thousands of currencies)	2016					
	USD	BRL	CAD	GBP	RON	SGD
Carrying position to be hedged:						
Trade account receivables	18,345	12,414	3,374	4	(999)	–
Cash	482	–	–	–	–	–
Trade payables	(7,225)	(10,484)	–	(2,050)	(153)	(1,424)
Total	**11,602**	**1,930**	**3,374**	**(2,046)**	**(1,152)**	**(1,424)**
Net nominal of hedges	(10,176)	–	(3,003)	2,156	608	1,337
Net residual position	**1,426**	**1,930**	**372**	**110**	**(544)**	**(87)**
Equivalent value in euros at closing rate	1,353	563	262	128	(120)	(57)
Analysis of sensitivity to currency fluctuations						
Closing rate	1.05	3.43	1.42	0.86	4.54	1.52
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.11	3.60	1.49	0.90	4.77	1.60
Foreign exchange impact in P&L	(64)	(27)	(12)	(6)	6	3
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.00	3.26	1.35	0.81	4.31	1.45
Foreign exchange impact in P&L	71	30	14	7	(6)	(3)

NOTE 19 TRADE AND OTHER PAYABLES

	2016	2015
Trade payables	22,382	24,441
Social debts	21,789	19,440
Fiscal debts	5,540	4,808
Down-payments from customers	8,969	8,622
Other current payables	600	249
Total	**59,280**	**57,561**

NOTE 20 DEFERRED REVENUES

	2016	2015
Deferred revenues on recurring contracts	49,913	46,712
Other deferred revenues[1]	3,941	3,613
Total	**53,854**	**50,325**

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

The counterpart of "Deferred revenues on recurring contracts" and "Other deferred revenues" is recorded for the same amount (plus VAT and related taxes) in "Trade accounts receivable" in the statement of financial position (see note 13).

NOTE 21 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

2015	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2015	723	1,363	688	524	3,298
Additional provisions	272	181	–	688	1,142
Used amounts reversed	(206)	–	(118)	(684)	(1,007)
Unused amounts reversed	(103)	–	–	(39)	(142)
Exchange rate differences	–	(371)	(10)	–	(380)
Provisions at December 31, 2015	**686**	**1,173**	**561**	**490**	**2,910**

2016	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2016	686	1,173	561	490	2,910
Additional provisions	436	152	421	1,055	2,065
Used amounts reversed	(175)	–	–	(897)	(1,072)
Unused amounts reversed	(263)	–	(533)	(52)	(848)
Exchange rate differences	–	320	8	–	328
Provisions at December 31, 2016	**684**	**1,646**	**456**	**595**	**3,382**

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, 2016.
To the Group's knowledge, there were no proceedings pending at December 31, 2016, other than those for which provision has been made, that could have a material negative impact on the financial condition of the Group.

ENVIRONMENTAL RISKS

Given the nature of its business the Group is not exposed to any environmental risks.

NOTE 22 ADDITIONAL DISCLOSURE CONCERNING FINANCIAL INSTRUMENTS

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

At December 31, 2015	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
Loans, deposits and guarantees	Loans and receivables	X			1,219	1,219
Trades account receivables	Loans and receivables	X			53,404	53,404
Other current assets	Loans and receivables	X			28,374	28,374
Derivatives not designated as hedges	Financial assets at fair value through profit and loss		X		63	63
Derivatives designated as hedges	Financial assets at fair value through equity			X	–	–
Cash and cash equivalents	Financial assets at fair value through profit and loss		X		59,347	59,347
Total financial assets					**142,407**	**142,407**
Interest-bearing bank loans	Financial liabilities carried at amortized cost	X			–	–
Repayable advance OSEO	Financial liabilities carried at amortized cost	X			–	–
Cash facilities	Financial liabilities carried at amortized cost	X			–	–
Derivatives not designated as hedges	Financial liabilities at fair value through profit and loss		X		–	–
Derivatives designated as hedges	Financial liabilities at fair value through OCI			X	–	–
Trade payables and other current liabilities	Financial liabilities carried at amortized cost	X			57,561	57,561
Total financial liabilities					**57,561**	**57,561**

At December 31, 2016	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
Loans, deposits and guarantees	Loans and receivables	X			1,423	1,423
Trades account receivables	Loans and receivables	X			60,076	60,076
Other current assets	Loans and receivables	X			27,691	27,691
Derivatives not designated as hedges	Financial assets at fair value through profit and loss		X		–	–
Derivatives designated as hedges	Financial assets at fair value through OCI			X	–	–
Cash and cash equivalents	Financial assets at fair value through profit and loss		X		75,696	75,696
Total financial assets					**164,886**	**164,886**
Interest-bearing bank loans	Financial liabilities carried at amortized cost	X				–
Repayable advance OSEO	Financial liabilities carried at amortized cost	X				–
Cash facilities	Financial liabilities carried at amortized cost	X				–
Derivatives not designated as hedges	Financial liabilities at fair value through profit and loss		X		44	44
Derivatives designated as hedges	Financial liabilities at fair value through OCI			X		–
Trade payables and other current liabilities	Financial liabilities carried at amortized cost	X			59,280	59,280
Total financial liabilities					**59,324**	**59,324**

Fair value of loans and trade accounts receivable, trade payables and other current liabilities is identical to their book value.

NOTE 23 ADDITIONAL DISCLOSURES

Commitments Given

Contractual commitments	Payments due by period: Less than 1 year	Between 1 to 5 years	More than 5 years	Total
Rental contracts: offices	4,532	9,832	1,203	15,567
Rental contracts: others[1]	5,511	3,761	7	9,279
Total rental contracts	**10,043**	**13,593**	**1,210**	**24,846**
Other guarantees: sureties[2]	4,316	16	28	4,360

(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 2016 amounted to €11,671,000.

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.

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 2016 and 2015 are also provided at 2015 exchange rates ("like-for-like"), as indicated in the notes concerned.

NOTE 24 REVENUES

In 2016, no single customer represents more than 6% of consolidated revenues, the 10 largest customers combined account for less than 20% of revenues, and the 20 largest customers for less than 27%.

NOTE 24.1 REVENUES BY GEOGRAPHIC REGION

In 2016, as in 2015, almost 50% of total revenues were generated in five countries: the United States (14%), China (11%), Italy (9%), Mexico (9%) and France (7%). These percentages were 14%, 11%, 10%, 9% and 7% respectively in 2015.
The share of revenues generated in the United Kingdom was less than 3%. Greece's and Russia's share of revenues is immaterial.

	Twelve Months Ended December 31						
	2016			2015		Changes 2016/2015	
	Actual	%	At 2015 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	107,357	41%	108,423	101,420	43%	+6%	+7%
– France	17,655	7%	17,655	16,625	7%	+6%	+6%
Americas	68,914	27%	69,074	65,955	28%	+4%	+5%
Asia-Pacific	68,767	26%	68,478	55,842	23%	+23%	+23%
Other countries	15,123	6%	15,463	14,669	6%	+3%	+5%
Total	**260,162**	**100%**	**261,438**	**237,886**	**100%**	**+9%**	**+10%**

NOTE 24.2 REVENUES BY PRODUCT LINE

	Twelve Months Ended December 31						
	2016			2015		Changes 2016/2015	
	Actual	%	At 2015 exchange rates	Actual	%	Actual	Like-for-like
Software, of which:	71,935	27%	72,389	69,732	29%	+3%	+4%
– New licenses	24,507	9%	24,570	23,728	10%	+3%	+4%
– Software evolution and online services contracts	47,428	18%	47,819	46,004	19%	+3%	+4%
CAD/CAM equipment	74,662	29%	74,589	61,292	26%	+22%	+22%
Hardware maintenance and online services contracts	35,706	14%	35,984	33,694	14%	+6%	+7%
Consumables and parts	63,951	25%	64,569	58,837	25%	+9%	+10%
Training and consulting services	11,562	4%	11,564	12,168	5%	–5%	–5%
Miscellaneous	2,346	1%	2,343	2,164	1%	+8%	+8%
Total	**260,162**	**100%**	**261,438**	**237,886**	**100%**	**+9%**	**+10%**

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

	Twelve Months Ended December 31						
	2016			2015		Changes 2016/2015	
	Actual	%	At 2015 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales[1]	113,077	43%	113,066	99,351	42%	+14%	+14%
Recurring revenues[2], of which:	147,085	57%	148,372	138,535	58%	+6%	+7%
– Recurring contracts	83,134	32%	83,803	79,698	33%	+4%	+5%
– Consumables and parts	63,951	25%	64,569	58,837	25%	+9%	+10%
Total	**260,162**	**100%**	**261,438**	**237,886**	**100%**	**+9%**	**+10%**

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

(2) Recurring revenues fall into two categories:

- software evolution and online services contracts, and CAD/CAM equipment 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

	Twelve Months Ended December 31						
	2016			2015		Changes 2016/2015	
	Actual	%	At 2015 exchange rates	Actual	%	Actual	Like-for-like
Fashion and apparel	44,834	40%	45,038	47,078	47%	–5%	–4%
Automotive	50,075	44%	49,630	33,485	34%	+50%	+48%
Furniture	11,404	10%	11,639	13,524	14%	–16%	–14%
Other industries	6,764	6%	6,759	5,264	5%	+28%	+28%
Total	**113,077**	**100%**	**113,066**	**99,351**	**100%**	**+14%**	**+14%**

NOTE 24.5 BREAKDOWN OF REVENUES BY CURRENCY

	2016	2015
Euro	42%	46%
US dollar	35%	34%
Chinese yuan	5%	7%
Japanese yen	3%	2%
British pound	2%	3%
Other currencies[1]	13%	8%
Total	**100%**	**100%**

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

NOTE 25 COST OF GOODS SOLD AND GROSS PROFIT

	2016	2015
Revenues	260,162	237,886
Cost of goods sold, of which:	(68,417)	(58,580)
– Purchases and freight-in costs	(62,670)	(53,140)
– Inventory movement, net	2,012	1,500
– Industrial added value	(7,759)	(6,940)
Gross profit	**191,745**	**179,306**
(in % of revenues)	73.7%	75.4%

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

	2016	2015
Fixed personnel costs	(18,512)	(18,649)
Variable personnel costs	(791)	(714)
Other operating expenses	(1,922)	(1,540)
Depreciation expenses	(1,064)	(1,172)
Total before research tax credit and grants[1]	**(22,289)**	**(22,075)**
(in % of revenues)	8.6%	9.3%
Research tax credit and government grants	6,838	7,758
Total	**(15,451)**	**(14,317)**

(1) 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 €22,573,000 (€22,371,000 in 2015), that is 8.7% of revenues (9.4% in 2015).

NOTE 27 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Fixed personnel costs	(81,223)	(77,813)
Variable personnel costs	(12,049)	(10,240)
Other operating expenses	(41,140)	(40,409)
Depreciation expenses	(3,914)	(3,571)
Net provisions	(687)	(1,136)
Total [1]	**(139,013)**	**(133,169)**
(in % of revenues)	53.4%	56.0%

(1) Selling, general and administrative expenses' do not include the expenses comprised in "Industrial added value" (see note 25), which amounted to €7,759,000 in 2016 and €6,940,000 in 2015.

FEES PAID TO GROUP AUDITORS AND COMPANIES IN THEIR NETWORKS

In 2016, other operating expenses comprised €817,000 in respect of the audit of all Group companies, of which €443,000 for PricewaterhouseCoopers, €293,000 for KPMG and €81,000 for other audit firms, excluding non-audit services. The corresponding amount in 2015 was €797,000.
Fees paid by the Group in 2016 to the Statutory Auditors in respect of the audit and non-audit services performed by their networks to consolidated entities were €878,000, of which €567,000 for PricewaterhouseCoopers and €311,000 for KPMG:

	PwC				KPMG			
	Amount		%		Amount		%	
	2016	2015	2016	2015	2016	2015	2016	2015
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
– Issuer (Lectra SA)	148	143	26%	23%	130	125	42%	40%
– Fully-consolidated subsidiaries	295	312	52%	50%	163	128	52%	41%
Non-audit services								
– Issuer (Lectra SA)	21	18	4%	3%	–	–	0%	0%
– Fully-consolidated subsidiaries	–	–	0%	0%	–	–	0%	0%
Sub-total	**464**	**473**	**82%**	**77%**	**293**	**253**	**94%**	**82%**
Other services to consolidated entities								
– Legal, tax and social reviews[1]	103	145	18%	23%	18	57	6%	18%
Sub-total	**103**	**145**	**18%**	**23%**	**18**	**57**	**6%**	**18%**
Total	**567**	**618**	**100%**	**100%**	**311**	**310**	**100%**	**100%**

(1) 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.

	2016	2015
Research and development	(19,303)	(19,363)
Selling, general and administrative	(93,272)	(88,053)
Manufacturing, logistics and purchasing[1]	(5,307)	(4,644)
Total	**(117,883)**	**(112,060)**

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

The increase in personnel expenses in "Selling, general and administrative" stems mainly from the transformation plan (which comprises a major recruitment plan to bolster sales and marketing teams, as well as software R&D teams) implemented by the Group over the period 2012-2016, as well as the impacts of the currencies fluctuations against the euro.
Personnel expenses for 2016 are presented after deduction of the (French) competitiveness and employment tax credit, amounting to €827,000 (€839,000 in 2015).

NOTE 28.2 HEADCOUNT AT DECEMBER 31

	2016	2015
Parent company[1]	769	749
Subsidiaries[2], of which:	781	768
– Europe	304	310
– Americas	172	168
– Asia-Pacific	233	214
– Other countries	71	76
Total	**1,550**	**1,517**

(1) In 2016 as in 2015, 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

	2016	2015
Marketing, Sales	321	306
Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance)	481	467
Research and Development	270	265
Purchasing, Production, Logistics	152	157
Administration, Finance, Human Resources, Information Systems	326	322
Total	**1,550**	**1,517**

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 2016, Group companies subject to defined-contribution pension plans booked a sum of €4,873,000 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 2017, a payment for profit-sharing totaling €1,043,000 will be made, in respect of fiscal year 2016 (€112,000 paid in 2016, in respect of fiscal year 2015).

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 2014 covers the period 2014-2016.
The incentive amount in respect of fiscal 2016 equals to €710,000 (€1,098,000 in respect of 2015). For fiscal 2016, an interim payment of €404,000 was made in November 2016, the balance outstanding to be paid in the first half of 2017.
Thus, the cumulative amount of profit-sharing and incentive plans totaled €1,753,000 in respect of fiscal 2016 (€1,210,000 in respect of fiscal 2015).

NOTE 28.5 COMPENSATION OF GROUP MANAGEMENT

The Group management team consists of two Company Officers: the Chairman of the Board of Directors and the Chief Executive Officer; the Chief Financial Officer, the Chief Transformation Officer, the Chief Sales Officer and, since July 1, 2016, the Chief Marketing and Communications Officer.
The two 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 (they are not under any employment contract to the company), or more generally subsequent to the termination of their functions. The company does not award them bonuses in any form.
Compensation of members of the management team, Company Officers or other, comprises a fixed portion and a variable portion.
In 2016, as in 2015, variable compensation for the Chairman of the Board of Directors and the Chief Executive Officer is set in accordance with four clear and complementary quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets, reflecting the company's strategy of profitable sales activity and earnings growth and determined according to clear criteria:
– 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 certain restatements of certain items (accounting for 10%);
– a criterion measuring the contributive value of recurring contracts (accounting for 10%).

The corresponding calculations eliminate the impact of actual currency variations relative to those used to set the targets.
These criteria and targets also apply to the four members of the Group management team who are not Company Officers: the only differences concerning the portion relating to target-based variable compensations, which is set individually for each of them and tailored to their role and objectives (thus, variable compensation is equal to 35% of total compensation for three of them, and 30% of the fourth one). These criteria and targets also apply to some managers of the parent company Lectra SA.
For each of these four 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 annual targets are exceeded on all criteria and result in the ceiling of 200% for each of them.
Conditional upon fulfilment of annual targets, variable compensation for 2016 and 2015 was equal to 60% of total compensation for the Chairman of the Board of Directors and Chief Executive Officer.
Thus, total compensation is comprised between 40% and 160% of the total target-based compensation for the Chairman of the Board of Directors and the Chief Executive Officer. It is comprised between 65% and 135% or 70% and 130% of the total target-based compensation for the four other members of the management team.
Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee.
The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent 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 Committee verifies the annual application of these rules and the final amount of variable compensation, on the basis of the audited financial statements.
In 2016, the variable portion of compensation for the Chairman of the Board of Directors and the Chief Executive Officer represented 86% of the amount payable on fulfilment of annual targets, the criteria measuring the consolidated income before tax having been exceeded, and the other three not reached. Variable compensation for the four members of the Group management team who are not Company Officers represented between 81% and 86% of the amount payable on fulfillment of annual targets.
In 2015, the variable portion of compensation for the Chairman of the Board of Directors and the Chief Executive Officer represented 62% of the amount payable on fulfilment of annual targets, the criteria measuring the contributive value of growth in sales activity, the contributive value of recurring contracts and the consolidated income before tax not having been reached, and that measuring the consolidated free cash flow having been exceeded. Variable compensation for the three members of the Group management team who are not Company Officers represented between 53% and 62% of the amount payable on fulfillment of annual targets.
In respect of 2016, aggregate compensation and benefits in kind paid to the six members of the Group management team (excluding directors' fees for the two Company Officers), amounted to €2,465,000, of which €1,393,000 in fixed compensation, €1,018,000 in variable compensation, and €53,000 in benefits in kind.

In respect of 2015, this aggregate compensation and benefits in kind for the five members of the Group management team amounted to €1,968,000, of which €1,228,000 in fixed compensation, €688,000 in variable compensation, and €52,000 in benefits in kind.
The four members of the Group management team who are not Company Officers were granted 82,037 stock options in 2016 given their actual performances. An expense of €47,000 was recognized in respect of 2016 as a result of the new stock option plan together with prior-year plans concerning these beneficiaries. The two Company Officers held no stock options (see note 15.5.5).

NOTE 28.6 DIRECTORS' FEES

The Ordinary Shareholders' Meeting on April 29, 2016 raised the number of directors from four to five.
Following the approval of the same meeting, €216,000 in directors' fees will be allocated to the five members of the Board with respect to fiscal 2016 (€160,000 with respect to fiscal 2015 to four directors).
Compensation paid to the three 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:

	2016	2015
Research and development[1]	(1,064)	(1,172)
Selling, general and administrative	(3,914)	(3,571)
Manufacturing, logistics and purchasing[2]	(676)	(694)
Total	**(5,654)**	**(5,437)**

(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

	2016	2015
Financial income, of which:	**153**	**245**
Gains on sales of cash equivalents	64	162
Other interest income	56	72
Reversal of provisions for depreciation of investments and loans	33	11
Financial expenses, of which:	**(454)**	**(462)**
Bank charges	(438)	(459)
Interest expense on bank loans and financial debts	–	–
Other financial expenses	(16)	(3)
Total	**(301)**	**(217)**

NOTE 31 FOREIGN EXCHANGE INCOME (LOSS)

A foreign exchange translation loss of €462,000 was recognized in 2016 (€487,000 in 2015).
At December 31, 2016, as at December 31, 2015, the company held no currency options (see note 18.4).

NOTE 32 SHARES USED TO COMPUTE EARNINGS PER SHARE

At December 31, 2016 and 2015, the company had not issued any dilutive instrument other than the stock options detailed in note 15.5.

Basic earnings per share	2016	2015
Net income (in thousands of euros)	26,662	23,377
Weighted average number of shares outstanding during the period[1]	30,995,839	30,646,140
Weighted average number of treasury shares held during the period	(14,260)	(20,576)
Weighted average number of shares used to compute basic earnings per share	30,981,579	30,625,563
Basic earnings per share (in euros)	**0.86**	**0.76**

(1) In 2016, 461,155 stock options were exercised, giving rise to the creation of 461,155 new shares. In 2015, 457,285 stock options were exercised, giving rise to the creation of 457,285 new shares (see note 15).

Diluted earnings per share	2016	2015
Net income (in thousands of euros)	26,662	23,377
Weighted average number of shares outstanding during the period[1]	30,995,839	30,646,140
Weighted average number of treasury shares held during the period	(14,260)	(20,576)
Dilutive effect of stock options, under the share repurchase method[2]	813,067	873,028
Weighted average number of shares used to compute diluted earnings per share	31,794,646	31,498,591
Diluted earnings per share (in euros)	**0.84**	**0.74**

(1) In 2016, 461,155 stock options were exercised, giving rise to the creation of 461,155 new shares. In 2015, 457,285 stock options were exercised, giving rise to the creation of 457,285 new shares (see note 15).
(2) In 2016, due to an average share price of €14.50 during the period, the dilutive effect of stock options under the share repurchase method resulted in 813,067 theoretical additional shares (873,028 theoretical additional shares in 2015 due to an average share price of €11.72).

NOTE 33 INCOME STATEMENT AT CONSTANT EXCHANGE RATES

	2016		2015	Changes 2016/2015	
	Actual	At 2015 exchange rates	Actual	Actual	Like-for-like
Revenues	**260,162**	**261,438**	**237,886**	**+9%**	**+10%**
Cost of goods sold	(68,417)	(68,451)	(58,580)	+17%	+17%
Gross profit	**191,745**	**192,987**	**179,306**	**+7%**	**+8%**
Research and development	(15,451)	(15,451)	(14,317)	+8%	+8%
Selling, general and administrative expenses	(139,013)	(139,837)	(133,169)	+4%	+5%
Income from operations	**37,281**	**37,699**	**31,820**	**+17%**	**+18%**
(in % of revenues)	14.3%	14.4%	13.4%	+0.9 point	+1.0 point

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 2015 and 2016 decreased 2016 Group revenues by €1,276,000 and income from operations by €418,000.
The US dollar (average parity versus the euro $1.11/€1 in 2016 and in 2015) accounted for an increase of €186,000 in revenues and of €60,000 in income from operations in the 2016 figures at actual exchange rates, relative to the 2016 figures at 2015 exchange rates.
In 2016, 42% of the Group's consolidated revenues, 83% of its cost of sales, and 67% of its overhead expenses were denominated in euros. These percentages were respectively 35%, 11%, and 14% for the US dollar, as well as 5% (part of the revenues generated in China are denominated in US dollars or other currencies), 1% and 7% for the Chinese yuan. The other currencies each represented less than 4% 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 have been based on the December 31, 2016 exchange rates for the currencies in which the Group generates its revenues, notably $1.10/€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 $1.05/€1) would mechanically increase 2017 annual revenues by approximately €5 million and annual income from operations by €2.8 million. Conversely, a 5-cent appreciation of the euro against the US dollar (*i.e.* $1.15/€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 QUARTERLY RESULTS OF OPERATIONS

Reconciliation of published quarterly financial statements with the audited annual financial statements:

2016: quarter ended	March 31	June 30	September 30	December 31	2016
Revenues	**62,214**	**64,132**	**64,398**	**69,418**	**260,162**
Cost of goods sold	(16,285)	(17,082)	(16,603)	(18,447)	(68,417)
Gross profit	**45,929**	**47,050**	**47,795**	**50,971**	**191,745**
Research and development	(3,961)	(4,196)	(3,361)	(3,933)	(15,451)
Selling, general and administrative expenses	(34,629)	(34,768)	(33,252)	(36,364)	(139,013)
Income from operations	**7,339**	**8,086**	**11,182**	**10,674**	**37,281**
Net Income	**5,130**	**5,525**	**8,076**	**7,931**	**26,662**

2015: quarter ended	March 31	June 30	September 30	December 31	2015
Revenues	**56,120**	**60,308**	**59,269**	**62,188**	**237,886**
Cost of goods sold	(13,371)	(14,824)	(14,645)	(15,740)	(58,580)
Gross profit	**42,749**	**45,484**	**44,624**	**46,448**	**179,306**
Research and development	(3,559)	(3,589)	(3,015)	(4,155)	(14,317)
Selling, general and administrative expenses	(33,580)	(34,331)	(31,821)	(33,436)	(133,169)
Income from operations	**5,610**	**7,564**	**9,788**	**8,858**	**31,820**
Net Income	**3,711**	**5,281**	**6,978**	**7,407**	**23,377**

NOTE 35 OPERATING SEGMENTS INFORMATION

2016	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	107,357	68,914	68,767	15,124	–	**260,162**
Income (loss) from operations	17,926	9,957	5,191	2,302	1,905	**37,281**

2015 (1)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	101,420	65,955	55,842	14,669	–	**237,886**
Income (loss) from operations	15,390	8,548	1,533	2,537	3,812	**31,820**

(1) The 2015 amounts have been restated in order to account for the change in gross profit margins (see below) and allow for comparison with 2016.

The standard gross profit margins used to determine the performance of operating segments have been changed from January 1, 2016, to take into account the improvement in the overall profitability of the Group. 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.

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 36 NON-CASH OPERATING EXPENSES

In 2016, as in 2015, "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 2.27 "Translation Methods"), additional financial provisions, the impact of measurement of stock options, and reversal of the provision for impairment of investments in non-consolidated subsidiaries.

NOTE 37 CHANGES IN WORKING CAPITAL REQUIREMENT

In 2016, the net increase of the working capital requirement amounted to €2,191,000 and broke down as follows:

- +€3,251,000 corresponding to the increase in trade accounts receivable, following the sharp rise of revenues (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);
- +€2,657,000 corresponding to the increase in inventories;
- –€2,175,000 arising from the decrease of the receivable on the French tax administration *(Trésor public)* corresponding to the research tax credit and the competitiveness and employment tax credit. This amount corresponds to the difference between the tax credits for fiscal 2016 after deduction from the corporate income tax due by Lectra SA, accounted for but not received, and the balance outstanding relating to the 2012 research tax credit received in Q3 2016 (€5,091,000);
- +€2,159,000 corresponding to a decrease in trade accounts payable;
- –€2,580,000 arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2015 paid mainly in 2016, and the one accounted for in 2016 and payable in 2017;
- –€1,121,000 arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

In 2015, the net increase of the working capital requirement amounted to €52,000 and comprised:

- +€2,618,000 corresponding to the increase in trade accounts receivable following the sharp rise of revenues;
- +€2,593,000 corresponding to the increase in inventories;
- +€681,000 arising from the increase of the receivable held by Lectra SA on the French tax administration *(Trésor public)* corresponding to the research tax credit, after deduction from the corporate income tax due for the year, and net of the 2011 research tax credit reimbursed (€4,804,000);
- –€3,704,000 corresponding to an increase in trade accounts payable;
- –€1,595,000 corresponding to the increase of customer down payments in the statement of financial position, due to new systems orders in Q4 2015 being higher than those in Q4 2014;
- –€541,000 arising from the change in other current assets and liabilities; taken individually, these changes were all immaterial.

At December 31, 2016, as at December 31, 2015, 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 38 REPAYMENT OF LONG-TERM AND SHORT-TERM BORROWINGS

In 2016 as in 2015, the Group did not contract any financial debts.
In March 2015, the company repaid the remaining of public grants to finance R&D programs for €394,000.

NOTE 39 FREE CASH FLOW

Free cash flow is equal to net cash provided by operating activities plus cash used in investing activities—excluding cash used for acquisitions of companies, net of cash acquired.

	2016	2015
Net cash (used in)/provided by operating activities	30,537	29,650
Net cash (used in)/provided by investing activities, excluding cash used for acquisition of companies	(6,743)	(8,112)
Free cash flow	**23,794**	**21,538**

In 2016, net cash provided by operating activities of €30,537,000 (€29,650,000 in 2015) comprised a €2,191,000 increase in working capital requirement (€52,000 in 2015).
Details of changes in working capital requirement are provided in note 37 above.
Free cash flow was €23,794,000 and there were no non-recurring items. In 2015, it was €21,538,000 and there were no non-recurring items.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2016, on:
– the audit of the accompanying consolidated financial statements of Lectra SA;
– the justification of our assessments;
– the specific verification required by law.
These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:
– Your company systematically performs impairment tests of fixed assets at year end and also assesses any impairment indicators, as explained in the note 2.6 "Fixed assets impairment—Impairment tests" to the consolidated financial statements. We have examined the ways this impairment test was implemented as well as the cash flow forecasts and the assumptions upon which these forecasts were based. We verified the appropriateness of the information provided in the note 6 "Goodwill".
– As explained in the note 2.8 "Deferred income tax", your Company is led to make estimates and assumptions with respect to the evaluation of deferred tax assets. In the context of our assessments, our procedures consisted in assessing the overall consistency of the data and the underlying assumptions used to support the evaluation of these deferred tax assets and in reviewing the company's calculations and the appropriateness of the information provided in note 11.3.
These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. SPECIFIC VERIFICATION

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.
We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Mérignac, on February 23, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit	KPMG SA
Matthieu Moussy	Jean-Pierre Raud

STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF LECTRA SA

For the year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Lectra SA and in accordance with article L. 225-235 of the French Commercial Code *(Code de commerce)*, we hereby report to you on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

– to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and

– to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

INFORMATION CONCERNING THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

– obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;

– obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;

– determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L. 225-37 of the French Commercial Code.

OTHER INFORMATION

We attest that the Chairman's report sets out the other information required by article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Mérignac, on February 23, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit	KPMG SA
Matthieu Moussy	Jean-Pierre Raud

BIOGRAPHIES OF LECTRA DIRECTORS AND MEMBERS OF THE GROUP EXECUTIVE COMMITTEE

André Harari

André Harari, 73, Chairman of the Board of Directors of Lectra since May 3, 2002.
He became Vice Chairman of Lectra's Board of Directors in 1991, and Vice Chairman and Executive Vice President in 1998. He was a member of the Supervisory Board of Lectra from 1978 to 1990, when Compagnie Financière du Scribe (Paris, France) was a minority shareholder of Lectra since its early stage, before taking control of it at the end of 1990.
André Harari holds no outside directorships.
André Harari was Chairman and Chief Executive Officer of Compagnie Financière du Scribe, a venture capital firm specialized in technology companies, which he founded in 1975. Together with Daniel Harari, he was the main shareholder in Compagnie Financière du Scribe until its merger with Lectra on April 30, 1998. He began his career with the consulting division of Arthur Andersen (Paris, 1970-1975).
André Harari, of French nationality, is a graduate of the *École Polytechnique* and the *École Nationale de la Statistique et de l'Administration Économique* (Paris, France). He also holds a doctorate in management science from the University of Paris-Dauphine.

Daniel Harari

Daniel Harari, 62, Director and Chief Executive Officer of Lectra since May 3, 2002, 2005.
He became Chairman and Chief Executive Officer of Lectra in 1991, following its takeover by Compagnie Financière du Scribe at the end of 1990.
He holds no directorships outside the company and its subsidiaries.
He became in 1986 General Manager of Compagnie Financière du Scribe (Paris, France), a venture capital firm specialized in technology companies. Together with his brother André Harari, he was the main shareholder in Compagnie Financière du Scribe until its merger with Lectra on April 30, 1998.
He began his career as Vice President of Société d'Etudes et de Gestion Financière Meeschaert, an asset management company (Paris, France, 1980-1983). He was then Chairman and Chief Executive Officer of La Solution Informatique (1984-1990), a PC distribution and services company, and of Interleaf France (1986-1989), a subsidiary of the US software publisher, both of which he founded in Paris.
Daniel Harari, of French nationality, is a graduate of the *École Polytechnique* (Paris, France) and an MBA from HEC (Paris, France), coupled with the second year of the Stanford Business School program (USA).

Anne Binder

Anne Binder, 66, Independent Director of Lectra since October 27, 2011.
She currently is a consultant in financial strategy and an independent Director for publicly traded and non-publicly traded companies. She founded in 2016 FinTouch, a market place dedicated to French regional SMEs.
Anne Binder is member of the Board of Directors of Oceasoft and Senior Advisor of Tikehau IM (Paris, France). She is also member of the Board of Directors of the French National Chamber of Financial Investment Advisors.
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. From 1990 to 1993, she was the Chief Executive Officer of the holding company Euris (Paris, France) and Deputy Chief Executive Officer of investment fund Euris (investments in industrial companies). From 1983 to 1990, she participated in the creation and was General Manager of the French Pallas group (bank and investment, Paris, France). Prior to that, she was an associate manager for Générale Occidentale (bank and industrial holding, Paris, France) from 1978 to 1982.
At the beginning of her career, she was a consultant at Boston Consulting Group (Paris, France) and then associate manager at Lazard Frères Bank (Paris, France).
Anne Binder, of French nationality, is a graduate of the *Institut d'Études Politiques* of Paris. She also has a BA from the Paris faculty of law and an MBA from INSEAD (France).

Bernard Jourdan

Bernard Jourdan, 72, Independent Director of Lectra since December 21, 2011 and Lead Director since January 1, 2017.
Bernard Jourdan is currently an independent strategy and management consultant.
He holds no outside directorship.
From 1995 to 2005, he was member of the Board of Directors and Executive Vice President of the SPIE Group, a European leader in electrical and mechanical engineering as well as energy and communication systems. From 1990 to 1995, he was Executive Vice President of Operations of the French subsidiary of the Schindler Group, a leading global provider of elevators and escalators. From 1978 to 1990, he held various positions at Compagnie Générale des Eaux (currently Veolia Environment) group, a world leader in water treatment, environmental services, and energy services; he was, in particular, member of the Board of Directors, 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. In his early career, he was successively a consultant at Arthur Andersen Paris, associate manager at First National Bank of Chicago, and project manager at the Institut de Développement Industriel (IDI) in Paris.
Bernard Jourdan, of French nationality, holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus 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.

Nathalie Rossiensky

Nathalie Rossiensky, 47, Independent Director of Lectra since April 29, 2016.
She is currently Executive Vice President at Lombard Odier Europe, based in Paris in charge of large investor relationships and head of commercial development.
Nathalie Rossiensky is member of the Board of Directors of three family Sicav (collective investment schemes) within the scope of her professional duties.
She started her career at JP Morgan (Paris, France), Private Bank, before joining the Investment Management Division of Goldman Sachs International, in London in 2005, then in Paris (France), until 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, she was Assistant Professor of Finance (tenure track) at the Fuqua School of Business, Duke University (USA); her research was dedicated to asset management, financial intermediation and game theory. She was a speaker in conferences including Stanford University, NYU Stern School of Business in New York, and INSEAD (France).
Nathalie Rossiensky, of French nationality, graduated from University Paris-Dauphine (Master of Applied Mathematics and DEA of Financial Economics), and holds a Ph.D. in Finance from London Business School (United Kingdom).

Jérôme Viala

Jérôme Viala, 55, Executive Vice President since January 1, 2017 and Chief Financial Officer of Lectra since 1994, responsible for all financial, legal and manufacturing functions. He has also monitored legal and manufacturing activities since 2000, customer care services and consumables and parts since 2015, as well as international human resources since July 1, 2016.
He has been a member of the Executive Committee since its creation in 2005.
Jérôme Viala joined the finance department of Lectra in 1985, then successively held the positions of Controller for Europe and North America (France, 1988-1991), Chief Financial Officer for France (1992-1993) then for the product division (France, 1993-1994).
He began his career as a credit analyst at Esso (France).
Jérôme Viala is a graduate of the ESC Bordeaux (KEDGE Business School, France).

Céline Choussy Bedouet

Céline Choussy Bedouet, 40, Chief Marketing and Communications Officer since July 1, 2016.
She has also been a member of the Executive Committee since July 1, 2016.
Céline Choussy Bedouet joined Lectra in 2013, as Marketing Director for Automotive, Furniture, Technical Textiles and Composite Materials. She then became Chief Marketing Officer (2015-2016).

She began her career at Dassault Systèmes within the marketing partnerships team. After spending five years at their headquarters in France, she headed to the United States to work on the company's strategic partnership with Microsoft. In 2008, she joined Autodesk as EMEA, then Global Marketing Manager, based in France.
Céline Choussy Bedouet holds a master's degree in management from ESC Bordeaux (KEDGE Business School, France).

Édouard Macquin

Édouard Macquin, 51, Chief Sales Officer since 2011.
He has also monitored professional services since July 1, 2016. He has been a member of the Executive Committee since 2014.
Édouard Macquin joined Lectra's R&D department in 1987. After that, he took on various positions in consulting, services, marketing and sales in Paris, Italy, the United States and Brazil. In 2000, he was appointed Director of Lectra Brazil, then Director of South America in 2005.
Édouard Macquin holds an MBA from São Paulo Business School (Brazil).

Véronique Zoccoletto

Véronique Zoccoletto, 57, Chief Transformation Officer since July 1, 2016.
She monitors software R&D, the information system and human resources for France. She has been a member of the Executive Committee since its creation in 2005.
Véronique Zoccoletto 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 (2000-2004) and Chief Human Capital Officer and Chief Information Officer (2005-2016).
She began her career with Singer (France) in 1983 as Controller, and then was head of the budget and internal audit department. From 1989 to 1991 she was Chief Financial Officer of SYS-COM Ingénierie (France). In 1991, she became Chief Financial Officer of Riva Hugin Sweda France.
Véronique Zoccoletto is a graduate of the University of Paris-Dauphine (France).

BOARD OF DIRECTORS AND GROUP MANAGEMENT

Board of Directors

André Harari, *Chairman*
Daniel Harari, *Chief Executive Officer*
Anne Binder[1]
Bernard Jourdan[1], *Lead Director*
Nathalie Rossiensky[1]

(1) Independent Director.

Audit Committee
Bernard Jourdan, *Chairman*
Anne Binder
Nathalie Rossiensky

Compensation Committee
Bernard Jourdan, *Chairman*
Anne Binder
Nathalie Rossiensky

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

Executive Committee

Daniel Harari, Chief Executive Officer, *Chairman*
Jérôme Viala, Executive Vice President, *Chief Financial Officer*
Céline Choussy Bedouet, *Chief Marketing and Communications*
Édouard Macquin, *Chief Sales Officer*
Véronique Zoccoletto, *Chief Transformation Officer*

Group Management

Maximilien Abadie, *Strategy*
Régis Bévillon, *Human Resources*, *France*
Alexandra Boisson, *Legal Affairs*
Olivier du Chesnay, *Finance*
Frédéric Gaillard, *Product Marketing*, *Cutting Room*
Javier Garcia, *Sales Director*, *Automotive*
Laetitia Hugé, *Product Marketing*, *Product Development Fashion & Apparel*
Laurence Jacquot, *Industrial Operations and Cutting Room R&D*
Olivier Lavictoire, *Human Resources, International*
Arnaud Masseron, *Professional Services*
Olivier Nold, *Sales Director*, *Furniture*
Philippe Ribera, *Software Innovation, Fashion & Apparel*
Didier Teiller, *Customer Care*

Americas
Jason Adams, *North America*
Adriana Vono Papavero, *South America*

Asia-Pacific
Yves Delhaye, ASEAN, *Australia, South Korea, India*
Jean-Maurice Férauge, *Japan*
Andreas Kim, *China*

Europe
Corinne Barbot-Morales, *Spain*
Fabio Canali, *Italy*
Karen Elalouf, *France*
Jean-Patrice Gros, *Northern Europe*
Chris Nicolaes, *Germany and Eastern Europe*
Rodrigo Siza, *Portugal*

Other countries
Burak Susoy, *Turkey and Middle East*
Michael Stoter, *South Africa*

Statutory Auditors

PricewaterhouseCoopers Audit SA
Represented by Matthieu Moussy
Crystal Park — 63, rue de Villiers
92208 Neuilly-sur-Seine Cedex

KPMG SA
Represented by Jean-Pierre Raud
Domaine de Pelus — 11, rue Archimède
33692 Mérignac Cedex

A complete list of agents and distributors is available at Lectra.com.

Share Listing

Lectra shares are listed on Euronext (compartment B) and admitted to the Deferred Settlement Service (SRD "Long only").
Lectra shares figure among the French stocks making up the CAC Small, CAC Mid & Small, CAC All-Tradable, CAC All-Share, CAC Technology, CAC Software & Computer Services and EnterNext PEA-PME 150 indexes of Euronext, and Euronext Family Business.
ICB sector: 9537 – Software
ISIN code: FR 00000 65484
Liquidity Provider: Exane BNP Paribas

Financial Information and Regulatory Disclosures

Lectra's financial statements are compliant with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The company publishes its financial results quarterly. This English version of the 2016 Annual Report is a translation of the original French Annual Report prepared in the format currently adopted by French publicly-traded companies in accordance with French legal requirements. The parent company's financial statements and notes for 2016, the Board of Directors' reports and the resolutions submitted to the Ordinary and Extraordinary Shareholders' Meeting of April 28, 2017, and the Statutory Auditors' reports exist only in French ("Rapport financier 2016 – Assemblée Générale Ordinaire et Extraordinaire du 28 avril 2017"). Copies of these documents, as well as all financial information and regulatory disclosures, as defined in the General Regulation (Règlement Général) of the French Autorité des marchés financiers (AMF), are available on lectra.com, or by request from the Investor Relations department.

2017 Financial Calendar

Publication of quarterly and annual financial results

- First quarter 2017 ..... April 27, 2017
- Second quarter 2017 ..... July 27, 2017
- Third quarter 2017 ..... October 30, 2017
- Full year 2017 .....February 12, 2018

Annual Shareholders' Meeting – Paris ... April 28, 2017

Analyst Conferences

- Paris ..... October 31, 2017
- Paris .....February 13, 2018

The financial calendar is updated on www.lectra.com

Analyst coverage

Analysts from the following institutions have issued regular reports on the company's performance:
Exane BNP Paribas, SG Securities (Société Générale).

Investors Relations

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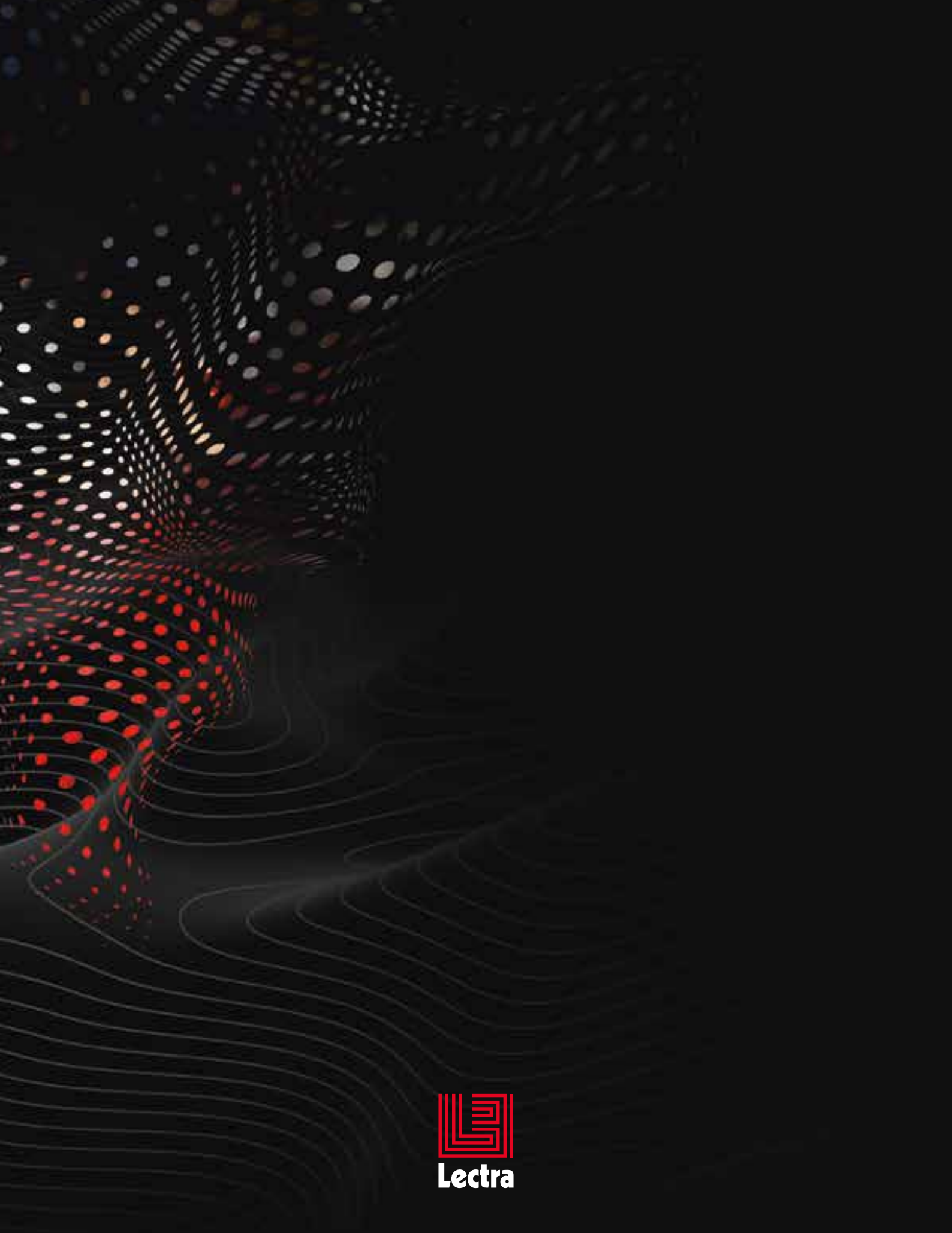
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