MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE FOURTH QUARTER AND FULL-YEAR OF 2014

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the fourth quarter and full year ending December 31, 2014. Financial statements for fiscal year 2014 have been reviewed by the Statutory Auditors.

Detailed comparisons between 2014 and 2013 are based on 2013 exchange rates ("like-for-like") unless stated otherwise.

1. SUMMARY OF OPERATIONS FOR Q4 2014

With an average parity of $1.25/€1, the U.S. dollar was up 9% compared to Q4 2013 ($1.36/€1). The change of this and other currency movements mechanically increased revenues by €1.8 million (+3%) and income from operations by €1 million (+19%) at actual exchange rates compared with like-for-like figures.

Sharp Rise in Orders for New Systems

Orders for new systems totaled €26.8 million; they were €19 million, €24.8 million and €23.7 million respectively in Q1, Q2 and Q3 2014.

Orders were up €5.3 million compared with Q4 2013, a 26% increase like-for-like and 31% at actual exchange rates.

New software licenses (€6.1 million) and CAD/CAM equipment (€16.8 million) increased by 27%, training and consulting (€3.3 million) by 26%.

Increase in Revenues

Revenues totaled €57.4 million, up 5% (+8% at actual exchange rates).

Revenues from new systems sales (€24.6 million) increased by €0.6 million (+3%).

Recurring revenues (€32.9 million) rose by €2 million (+7%), thanks to a 5% increase in revenues from recurring contracts and 8% in revenues from spare parts and consumables. Their growth accelerated in the fourth quarter after rising 3% in Q3 and 4% for the first six months of the year.

Sharp Rise in Income from Operations before Non-Recurring Items and Net Income

Income from operations before non-recurring items amounted to €6.4 million, up €1.1 million (+26%) like-for-like and €2.2 million (+51%) at actual exchange rates.

The operating margin (11.1%) increased by 1.6 percentage points like-for-like and by 3.1 percentage points at actual exchange rates.

Net income amounted to €4.7 million, up €1 million (+29%) at actual exchange rates compared to Q4 2013 net income before non-recurring items.

Record Free Cash Flow

Free cash flow was €9.7 million (€1.6 million in Q4 2013). It was boosted by the receipt in October of €5.7 million in respect of the French research tax credit for 2010 (see note 9 of the notes to this report).

2. SUMMARY OF EVENTS AND PERFORMANCE IN 2014

The company indicated on February 11, 2014 that the year was likely to be both difficult and unpredictable. Macroeconomic, geopolitical and monetary conditions were complex in the course of the year (see Chapter 3).

Growth in Orders for New Systems – Improved Product Mix

Overall, orders for new systems amounted to €94.3 million, up €10.5 million (+13%) relative to 2013: +16% for new software licenses, +7% for CAD/CAM equipment and +39% for training and consulting.

Geographically, the situation is highly contrasted. Orders in Europe increased by 39%—with growth exceeding 50% in the Germany and Eastern Europe region, Italy and France—and those in Asia-Pacific by 25%, with 45% growth in China. They dropped by 21% in the Americas and by 18% in the rest of the world (North Africa, South Africa, Turkey, the Middle East, etc.).

Orders were up in all market sectors: +12% in the fashion and apparel market; +9% in the automotive market, +3% in furniture and +73% in other industries. These markets accounted for 49%, 36%, 8% and 7% of total orders respectively.

Income from Operations and Net Income Above the Company's Minimum Objective

The company's objective communicated in its financial report on February 11, 2014 was to generate minimum revenues of approximately €214 million (+7% relative to 2013) for the fiscal year, income from operations of around €18 million (+10%), an operating margin of 8.3% (increasing slightly), and net income of around €12.5 million (unchanged at actual exchange rates, excluding 2013 non-recurring items).

While, at actual exchange rates, revenues for 2014 (€211.3 million) are 1% lower than this objective, income from operations (€19.8 million) is €1.8 million ahead and operating margin (9.4%) is 1.1 percentage points higher, thanks to an improved sales mix, improved margins and lower-than-expected overhead costs. Net income (€14.4 million) exceeds the objective by €1.9 million.

Growth in Revenues – Sharp Increase in the Order Backlog

Revenues from new systems sales (€88.6 million) rose by 5% compared to 2013. This is less than the amount for new orders booked (€94.3 million). Consequently the order backlog of €19.6 million at December 31, 2014 was up sharply relative to the January 1 figure of €13.2 million.

Recurring revenues (€122.8 million) increased by €5.3 million (+5%). Revenues from recurring contracts increased by 4% and revenues from spare parts and consumables by 5%. The increase in the gross margin on recurring revenues alone covered more than 80% of the increase in fixed overhead costs.

Total revenues (€211.3 million) were up by 5% relative to 2013. Revenues increased 10% in Europe and 8% in Asia-Pacific, but decreased 6% in the Americas. These three regions accounted for 46% (including 8% for France), 23% and 24% of revenues respectively. Revenues from the rest of the world (7% of total revenues) decreased by 3%. In 2013, these regions accounted for 44% (including 8% for France), 22%, 27% and 7% of total revenues respectively.

Growth in Income from Operations and in the Operating Margin before Non-Recurring Items—Continuation of Investments for the Future

Income from operations before non-recurring items was €19.8 million. Like-for-like, it was up €2.4 million (+14%) relative to 2013.

At actual exchange rates, it increased by €2.3 million (+13%). This increase stems from the growth in revenues from new systems sales (€2.6 million), in recurring revenues (€4.1 million), and in gross profit margins (€1.5 million). These positive impacts were partly offset by the natural increase in fixed overhead costs (€1.9 million), and the increase in investments for the future related to the company's transformation plan (€3.9 million). The impact of exchange rate variations on income from operations before non-recurring items for the year was virtually nil.

The operating margin before non-recurring items was 9.4%, up 0.7 percentage points like-for-like and 0.8 percentage points at actual exchange rates.

Expenditures corresponding to investments for the future (€13.6 million) had a negative impact of 1.8 percentage points on the operating margin before non-recurring items relative to 2013 and represented 6.4 percentage points relative to 2011, i.e. before the transformation plan's inception and investments for the future totaling €50 million over the period 2012-2015.

Income from operations for 2013 included the €11.1 million non-recurring income reflecting receipt of the outstanding amount in the litigation against Induyco, and the €0.7 million goodwill impairment on Lectra Spain.

Net income reached €14.4 million, up €1.9 million (+15%) compared with net income before non-recurring items of €12.5 million in 2013.

Strong Increase in Free Cash Flow before Non-Recurring Items

Free cash flow amounted to €19 million (€6.5 million in 2013 excluding receipt of the €11.1 million non-recurring income reflecting receipt of the outstanding amount in the litigation against Induyco). Excluding non-recurring items, the increase was €12.6 million.

Free cash flow was boosted by the receipt of the 2010 (French) research tax credit amounting to €5.7 million.

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

At December 31, 2014, consolidated shareholders' equity amounted to €94.1 million (+12%). Cash and cash equivalents totaled €43.5 million (+47%) and the net cash position was positive at €43.1 million (+50%), after payment of the €6.6 million dividend declared in respect of fiscal 2013.

Financial borrowings have been reduced to €0.4 million. They correspond to interest-free government advances to help finance R&D programs, the final repayment being scheduled for March 31, 2015.

Subsidiary Opened in South Korea

In April 2014 the company formed a new subsidiary, Lectra Korea, in South Korea, in order to accelerate its development in Asia.

After China, South Korea is one of the spearheads of Lectra's expansion in Asia, especially in the automotive industry and in the fashion and apparel industries, where South Korean firms increasingly rank among the world's leaders. Lectra has been operating in the country for more than 25 years, represented until then by an exclusive agent.

3. STRATEGIC ROADMAP FOR 2013-2016: SECOND PROGRESS REPORT

In its financial report of February 12, 2013, the company published its strategic roadmap for 2013-2015 as well as a broad outline of its transformation plan and investments for the future representing €50 million over the period 2012-2015.

Global growth proved slower than forecast, in 2013, and the hoped for rise in business confidence failed to materialize. Consequently, the company's revenues and results fell behind the roadmap. Given the uncertain macroeconomic conditions of 2014, the company stated in its February 11, 2014 report that it would be prudent to consider that it would only reach in 2016 the financial objectives it had set for 2015. The roadmap had, accordingly, been extended to the period 2013-2016.

The year 2014 was the third year of the transformation plan and investments for the future and the second year of the strategic roadmap, which are recalled in full below as communicated in the February 12, 2013 report, each chapter being followed by a second progress report, coming after last year's report.

A long-term strategy

Formulated at the end of 2009 with a view to emerging strengthened from the crisis, to prepare for the new post-crisis challenges and seize resulting opportunities, the 2010-2012 strategic roadmap proved its effectiveness and demonstrated the strength of Lectra's business model and the company's resilience. On the strength of its success, the company framed a new roadmap for 2013-2015 to enable it to fully realize its growth potential at the end of 2012.

Continuing to focus on a long-term strategy, its overriding objectives remain unchanged: accentuate Lectra's technological leadership and the high value of its product and service offer; strengthen its competitive position and its long-term relationships with customers; accelerate organic growth; boost profitability by regularly increasing the operating margin; and generate free cash flow in excess of net income (assuming that the French research tax credit and the competitiveness and employment tax credit recognized in the year, are received or used) thus self financing its future growth.

Progress Report

These five strategic objectives remain unchanged.

Building for the Future in the New Post-Crisis Economic Order

Eight economies (Brazil, Russia, India, China, South Korea, Indonesia, Mexico and Turkey) are expected to account for half of global growth in the present decade. Following China's example, their growth models will increasingly be driven by their domestic markets, greater added value and companies' quest for higher margins. Lectra is well armed to turn this new economic order into a vehicle for dynamic growth. The other half of global growth will still take place in developed countries, where the Group already has a significant market share.

From this dual-growth perspective, the company will benefit from its premium positioning, sustained by the new generations of all of its solutions, enhanced technological leadership, high performing services, the expertise of its staff in their customers' businesses, and its growing importance as a supplier to major global customers as it supports them in their drive for competitiveness, primarily targeting the Group's top 3,000 customers and providing dedicated resources for the top 300. Lectra is the only player in its industry supplying a complete high value offer across all its geographical markets and market sectors, giving its customers a unique long-term competitive advantage.

Five accelerators will drive Lectra's growth: emerging countries, together with the industrial revival in the United States and other developed countries; the automotive market—an industry currently experiencing far-reaching technological and geographical change; the leather market, thanks to the revolutionary new range of *Versalis* automated cutters; PLM for fashion and apparel offering collaborative solutions facilitating collection management; and, finally, 3D technology for fashion and apparel, the new universal product development solution.

Progress Report

The different countries' contributions to growth in Lectra's activity appear today to vary widely, depending on the change in their respective situation and potential for the Group since 2013.

Of the eight economies forecast to account for half of global growth in the current decade, China alone is expected to represent a third of potential growth in Lectra's activity over the next two years and into the medium term, followed by South Korea. Looking further ahead, Brazil, Mexico and Turkey—where Lectra already holds a strong position, but where the current economic situation is difficult—are expected to increase their contribution.

The main contribution from developed countries will come from the United States, Germany, Italy and France, gradually picking up momentum in the medium term.

The automotive market's share is expected to increase further, under the combined impact of expanding markets in emerging countries, the rising proportion of leather-upholstered car interiors, and the growing use of airbags, in 2015-2016 as well as in the medium term.

Growth in the leather market will be essentially concentrated in the automotive sector, with slower uptake of new technologies in the furniture and fashion markets.

In the fashion and apparel markets, market globalization, the rise in consumption in the emerging countries and in internet sales are all expected to boost sales of PLM software as of 2015-2016. On the other hand, adoption of 3D technology could proceed more slowly than forecast, but will pick up in the medium term. This technology represents a unavoidable revolution for businesses, which will prompt a radical rethink of their development methods so that they can take full advantage of the benefits it brings.

Consequently, the three growth accelerators for 2015 and 2016 will be China, the automotive market and PLM for fashion and apparel.

Deliberately Cautious Macroeconomic Assumptions

The roadmap assumed that macroeconomic conditions would be as weak as in 2012, consistent with growth forecasts for 2013 and 2014 known on February 12, 2013, while allowing for an upturn in business confidence. After all, businesses will need to adapt and build for their own future within these conditions, which will gradually encourage them to resume their investment decisions.

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

Progress Report

In its February 11, 2014 report, the company stated that the coming year was likely to be both difficult and unpredictable. The latest growth forecasts for 2014 and 2015 confirmed signs of a partial upturn in some developed countries, the United States and Japan in particular, while Europe continued to accumulate structural difficulties and could face deflation. At the same time, growth in certain emerging countries was revised downward. Finally, certain currency risks were likely to increase, with the gradual tightening of U.S. monetary policy and the likely depreciation of the emerging currencies.

While most of these expectations proved founded, a number of unforeseen events combined to worsen the macroeconomic and geopolitical environment, including wars in Ukraine and the Middle East, the oil price slump, the Greek and Russian crisis, etc. Sharply lower interest rates, expanding consumption in emerging countries, China notably, and the proven competitiveness of German and U.S. industries were among the positive factors.

For Lectra, the euro's fall since midsummer 2014 against the dollar and the Chinese yuan in particular is a major event. Variations in the exchange rate between December 31, 2013, and December 31, 2014, were significant: the dollar appreciated 13.6% against the euro (from $1.38/€1 to $1.21/€1) and the Chinese yuan rose 12.4% (from CNY 8.35/€1 to CNY 7.43/€1). Over and beyond its positive impact for Group customers in Europe (while the negative impact for China and the United States is expected to be limited), should this decline prove durable, it will mechanically boost the company's revenues and results significantly in 2015 and 2016.

Clear and Ambitious Financial Goals

The main goals for 2016 contained in the strategic roadmap are (like-for-like variations):

- revenue growth of 33% or greater over the period 2013-2016;
- a 15% operating margin (before non-recurring items) in 2016;
- more than doubling income from operations (before non-recurring items) and net income in four years.

These goals are supported by a determination to maintain a tight grip on key operating ratios, by preserving a security ratio (i.e. the percentage of annual fixed overhead costs covered by gross profit on recurring revenues) equal to or greater than 75%. They are founded on organic growth and are based on the exchange rates of February 1, 2013, in particular $1.35/€1.

If these goals were met, income from operations before non-recurring items would be multiplied by nearly four in 2016 relative to 2007, the last pre-crisis year, and the operating margin (before non-recurring items) would rise by nearly 10 percentage points, on an actual basis.

The company had indicated that, given the uncertainties at a time when forecasting is difficult, it may review these goals over the course of this three-year period.

Progress Report

While orders and revenues from new systems again fell behind the roadmap for the year in 2014, recurring revenues, on the other hand, have grown faster than expected.

At actual exchange rates, revenues are close to pre-crisis levels (€216.6 million in 2007 when the euro/dollar exchange rate had been more or less at the same rate at $1.37/ €1). The company's business model has been strengthened, with recurring revenues exceeding their 2007 level by €21.1 million (+ 21%) and representing 58% of revenues against 47%. The acceleration of the growth in revenues of new systems in 2015 and 2016 should lead them to exceed their 2007 level in 2016, with the aim of having an equal weighting to that of recurring revenues.

The profitability ratios (especially the overall gross profit margin and operating margin) were better than expected, with a particularly robust 79% security ratio.

Fixed overhead costs other than investments for the future were below budget and all other metrics were in line or better than expected.

As stated in Chapter 9, Business Trends and Outlook, the company maintains the financial goals it has set for 2016 unchanged.

Far-Reaching Company Transformation Plan and Investments for the Future

Faced with the scale of the economic crisis in 2008-2009, the company reduced its fixed overhead costs by nearly 20%, bringing them down from €124 million in 2007 to €100 million in 2010. Its 2010-2012 roadmap called for a second transformation phase in order to build its new post-crisis structure.

Innovation, human capital united around a strong corporate culture built on core values, uncompromised ethics in conducting business, and proximity to customers continue to drive Lectra's leadership. On the strength of its results, the company decided at the end of 2011 to give precedence to its long-term strategy rather than to short-term profitability, by devoting the requisite financial resources to this goal.

This three-point plan will cover the period to 2015, comprising:

- a major recruitment plan devoted to strengthening sales and marketing teams, which will grow from 220 people at the end of 2011 to 330, and from 16% to 22% of the total workforce (with a doubling of the number of sales people);
- the addition of 40 software R&D engineers in Bordeaux-Cestas, bringing the total R&D workforce to 260 engineers;
- accelerated investment in marketing.

If the recruitment program is executed in full, Lectra's workforce should rise by around 200 to 1,540 by end 2015. This is equivalent to the pre-crisis level of 1,551 in 2007, but with resources reallocated to core strategic activities and the most promising geographical markets and market sectors, as well as increasing efficiency and improving skills and performance.

These investments for the future will represent a cumulative €50 million over the period 2012-2015, fully expensed, while their benefits will only be felt progressively.

Fixed overhead costs will continue to be limited to around €130 million in 2015, versus €102 million in 2011, before the launch of the transformation plan. Adjusting for inflation, the level of fixed overhead costs in 2015 would be below that of 2007.

Progress Report

The increase in costs relating to the transformation plan in 2014 (€3.9 million) accounted for two thirds of the increase in total fixed overhead costs (€5.8 million), compared with 2013. Moreover, given the new recruitments, the Group devoted a significant part of its budget, €3.7 million, or 4% of its total payroll costs, on training its teams.

Overall, as of December 31, 2014, Lectra's workforce has increased by 136 since the end of 2011 to 1,474 employees, 13% of which joined the company in 2014 and 31% since the start of the plan. The sales and marketing teams totaled 287 (+73 persons), 24% of which joined the Group in 2014 and 56% since the launch of the plan. The total number of consultants was 69 (+33), while the total for the R&D teams came to 260 (+42).

The transformation plan has resulted in a strengthening of Lectra's consulting, marketing and software R&D teams, for which the recruitment program was completed at the end of 2014.

Investment in marketing has served to enhance Lectra's image and raise its profile, thanks in particular to its new lectra.com website, which has been online since December 2014, increasingly rich customer testimonials, and a global communications campaign in the fashion and apparel markets. This investment effort will be maintained and bolstered in 2015.

The main focus of the far-reaching overhaul and strengthening of Lectra's sales teams have been the Corporate functions, North America, China, and the Germany and Eastern Europe region. Recruitment generally was behind schedule at the end of 2014, and the overall situation was mixed. Only hiring for Corporate functions and in China has been completed. The corresponding plan was reviewed at the end of the year, on one hand, to readjust the breakdown of new hires over the company's geographic and market sectors and, on the other hand, to increase the number of pre-sales consultants, given the growing strategic importance for the company's customers in investing in Lectra's technologies.

The company now expects its sales and marketing teams—including the pre-sales consultants—to have expanded from 232 people at the end of 2011 to 360 at December 31, 2015, and from 17% to 23% of the total headcount. The transformation plan will have enabled a reallocation of resources toward the most strategically important activities as well as the geographical markets and market sectors with the greatest growth potential. The total Group headcount will be 1,540 as planned.

The transformation plan will be completed at the end of 2015, and the corresponding investments for the future will total €50 million over the period 2012-2015, as initially planned. Finally, fixed overhead costs will be limited to around €133 million in 2015, based on the chosen parity of $1.25/€1 for the year. The inflation-adjusted level for 2015 will be less than in 2007, as anticipated.

Fully Internally Funded Development

The company's annual free cash flow should continue to exceed net income (assuming utilization or receipt of the research tax credit and the competitiveness and employment tax credit applicable in France), enabling it to pursue its policy of paying dividends to shareholders while financing its future development.

Its goal is to be free of all financial debt.

Lectra will pursue its dividend-payment policy. Barring further changes to the taxation of dividends in France, the total dividend is expected to represent a payout ratio of around 33% of net income (excluding non-recurring items), the remaining 67% serving to self-finance the company's growth. This ratio could exceptionally rise to or exceed 50% until the investments for the future have produced their full impact, insofar as they are already taken into account in the computation of net income and free cash flow.

Lastly, besides the Liquidity Agreement, the company will not implement any share buyback plan. It will preserve its cash in order to finance future targeted acquisitions in the coming years, should the right opportunities arise on favorable terms, while its organic growth continues to be financed internally thanks to its business model.

Progress Report

The balance sheet at the end of 2014 is stronger than expected.

4. CONSOLIDATED FINANCIAL STATEMENTS FOR 2014

With an average parity of $1.33/€1, the U.S. dollar remained stable compared with 2013 ($1.33/€1). The same was true for the Chinese yuan. Other currencies, particularly those of emerging countries (the Turkish lira, Brazilian real, Indian rupee, Mexican peso, and the Russian ruble), suffered a major fall against the euro.

Overall, currency movements mechanically decreased revenues by only €0.9 million (–0.4%) and income from operations by €48,000 (–0.2%) at actual exchange rates compared with like-for-like figures.

Revenues

Revenues totaled €211.3 million, up 5% (+4% at actual exchange rates) compared with 2013.

Revenues from New Systems Sales

Revenues from new software licenses (€21.8 million) rose by €1.9 million (+9%) and accounted for 10% of total revenues, as in 2013.

CAD/CAM equipment revenues (€54.3 million) decreased 1% and accounted for 26% of total revenues (27% in 2013).

Revenues from training and consulting increased by 25% to €10.4 million and represented 5% of total revenues (4% in 2013).

Overall, revenues from new systems sales (€88.6 million) were up by €3.9 million (+5%). They represented 42% of total revenues, as in 2013.

Revenues from Recurring Contracts and Spare Parts and Consumables

Recurring revenues (€122.8 million) increased by €5.3 million (+5%). They accounted for 58% of total revenues, as in 2013.

Revenues from recurring contracts—which contributed to 58% of recurring revenues and 34% of total revenues—totaled €71.5 million, a 4% increase:

- revenues from software evolution and online services contracts (€41.6 million), up 4% compared with 2013 and representing 20% of total revenues;
- revenues from CAD/CAM equipment maintenance and online services contracts (€29.9 million), which increased by 4% and contributed 14% of total revenues.

Revenues from spare parts and consumables (€51.3 million), meanwhile, increased by 5%. They represented 24% of total revenues, as in 2013.

Order Backlog

At December 31, 2014, the order backlog for new systems (€19.6 million) was up €6.4 million relative to December 31, 2013, at actual exchange rates.

This backlog comprised orders for new software licenses and CAD/CAM equipment totaling €13.7 million—of which €9.4 million is for shipment in Q1 2015, and €4.3 million over the rest of the year—, and €5.9 million for training and consulting, to be delivered as projects are carried out, mostly from the second quarter.

Gross Profit

Gross profit amounted to €155.7 million. Like-for-like, its €10 million increase relative to 2013 is €0.8 million higher than the growth in revenues, an outstanding performance.

The overall gross profit margin was 73.7%. Like-for-like, it increased by 1.6 percentage points due to improved gross profit margins on the different product lines and to the change in the sales mix: with a rise in the share of software and of training and consulting in total revenues, and a fall in that of CAD/CAM equipment.

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 recognized in selling, general, and administrative expenses.

Overhead Costs

Total overhead costs were €136 million, up €7.6 million (+6%) compared with 2013. The breakdown is as follows:

- €122 million in fixed overhead costs, up €5.8 million (+5%). Investments for the future related to the company's transformation plan represented €13.6 million, or 11% of total fixed overhead costs;

– €14 million in variable costs, up €1.8 million (+15%), due to a rise in variable compensation resulting from the growth in activity and income, and from an increase in subcontracted services.

R&D costs are fully expensed in the period and included in fixed overhead costs. They increased by 14% to €21.7 million and represented 10.2% of revenues (€19.1 million and 9.4% for 2013). After deducting R&D grants, the research tax credit and the portion of the competitiveness and employment tax credit applicable in France and recognized in the year, net R&D costs amounted to €13.5 million (€12.5 million in 2013). They include a €0.7 million reversal of provisions related to the research tax credit, following a decision by the French Council of State (*Conseil d'Etat*, the supreme court for administrative justice), validating the inclusion of profit-sharing expenses (*intéressement* and *participation,* applicable to the parent company Lectra SA exclusively) in the basis for computation of the research tax credit (see note 9 of the notes to this report).

Income from Operations and Net Income

Income from operations reached €19.8 million. Compared with income from operations before non-recurring items of 2013, it increased €2.4 million (+14%) like-for-like, and rose €2.3 million (+13%) at actual exchange rates.

Financial income and expenses represented a net charge close to zero. Foreign exchange gains and losses generated a net loss of €0.4 million.

After an income tax expense of €5 million, net income reached €14.4 million (€12.5 million for 2013 excluding non-recurring items).

Net earnings per share were €0.48 on basic capital and €0.47 on diluted capital (€0.43 and €0.42 in 2013 excluding non-recurring items).

Free Cash Flow

Free cash flow amounted to €19 million (€17.6 million for 2013 after including a non-recurring receipt of €11.1 million). There were no non-recurring items in 2014. Excluding non-recurring items, free cash flow increased by €12.5 million.

The amount of €19 million results from cash flow provided by operating activities of €25.8 million (including a €7.9 million decrease in the working capital requirement), and cash flow used for capital expenditures of €6.7 million (see note 8 of the notes to this report).

The 2010 research tax credit (€5.7 million) has been received. The research tax credit (€6.8 million) and the competitiveness and employment tax credit (€0.8 million) for 2014, and the reversal of provisions of €0.7 million, were accounted for but not received. If the tax credits received had been equal to the amount recognized, free cash flow would have been €21.7 million, exceeding net income by €7.3 million.

Shareholders' Equity

At December 31, 2014, consolidated shareholders' equity reached €94.1 million (€83.8 million at December 31, 2013) after payment on May 7 of the €6.6 million dividend (€0.22 per share) declared in respect of fiscal 2013.

The figure for shareholders' equity is calculated after deduction of treasury shares held under the Liquidity Agreement and valued at their acquisition cost of €0.1 million (€0.1 million at December 31, 2013).

Cash and cash equivalents totaled €43.5 million (€29.5 million at December 31, 2013) and financial borrowings have been reduced to €0.4 million (€0.9 million at December 31, 2013). Consequently, the net cash position was €43.1 million (€28.6 million at December 31, 2013).

The working capital requirement amounted to €0.1 million. It has included the receivable of €23 million on the French tax administration *(Trésor public)* corresponding to the research tax credit recognized since fiscal year 2011, and the competitiveness and employment tax credit since 2013, neither of which has yet been received or offset against income tax. Restated for this receivable, the working capital requirement was negative at €22.9 million, a key feature of the Group's business model.

It should be noted that, 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 course of the fourth year. Thus, the 2010 research tax credit was repaid to the company in October 2014 (see note 9 of the notes to this report).

5. APPROPRIATION OF EARNINGS

Dividend Raised to €0.25 per Share

As recommended by the Board of Directors, the company had declared a dividend of €0.22 per share in respect of fiscal 2011, 2012 and 2013.

The Board of Directors will propose to the annual Ordinary Shareholders' Meeting of April 30, 2015 to increase the dividend to €0.25 per share in respect of fiscal 2014. This dividend would represent a payout ratio of 53% of 2014 net income and a yield of 2.7% based on the December 31, 2014 closing share price.

Subject to approval by the shareholders, the dividend will be made payable on May 7, 2015.

6. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At December 31, 2014, the share capital totaled €30,329,114, divided into 30,329,114 shares with a par value of €1.00.

Share capital has increased by €664,699 due to the creation of 664,699 shares since January 1, 2014, resulting from the exercise of stock options (an increase of €0.7 million in share capital together with a total share premium of €2.2 million).

On February 17, 2014, Schroder Investment Management Ltd (UK), acting on behalf of its funds and clients under management, reported that it had increased its shareholding above the threshold of 10% of the company's capital stock and voting rights on February 12, and that at that date it held 10.14% of the capital stock and 10.01% of the voting rights. Schroder Investment Management Ltd also indicated that it held an additional 2% of the company's capital on behalf of clients who have retained the exercise of their voting rights.

On February 10, 2015, Schroder Investment Management Ltd (UK) reported that it had, on February 5, decreased its shareholding below the threshold of 10% of the company's voting rights, and that at that date it held 10.06% of the capital stock and 9.93% of the voting rights.

On the same day, Delta Lloyd Asset Management NV (Netherlands), acting on behalf of its funds and clients under management, reported that it had decreased its shareholding below the threshold of 10% of the company's capital stock and voting rights, and that, on February 9, it held 9.77% of the capital stock and 9.65% of the voting rights.

No other crossing of statutory thresholds has been notified to the company since January 1, 2014.

At the date of publication of this report, and to the company's knowledge, the main shareholders are:

- André Harari and Daniel Harari, who together hold 36.6% of the capital and 36.2% of the voting rights;
- Schroder Investment Management Ltd (UK), which holds 10.06% of the capital and 9.93% of the voting rights, on behalf of investment funds and clients under management.
- Delta Lloyd Asset Management NV (Netherlands), which holds 9.77% of the capital and 9.65% of the voting rights, on behalf of investment funds and clients under management

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

Treasury Shares

At December 31, 2014, the company held less than 0.1% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement managed by Exane BNP Paribas.

Share Price Performance and Trading Volumes

After rising 75% in 2013, Lectra's share price gained a further 10% in 2014, closing at €9.14 on December 31, 2014. The share price recorded a low of €7.01 on October 16 and a high of €9.45 on December 18. The CAC 40 index fell by 1% in 2014 and the CAC Mid & Small index gained 8%.

According to Euronext statistics, the number of shares traded (6.8 million) was down 16%, and trading volumes (€54.9 million) were up 15% compared with the same period of 2013.

Lectra confirmed, in its press release of April 3, that it is eligible for inclusion in French SME equity savings plans "PEA-PME" qualifying for tax relief specifically applicable to investments in European small- and mid-cap companies.

Lectra's shares were transferred to Compartment B of Euronext on January 29, 2014, joining Euronext's new EnterNext PEA-PME 150 index.

7. SIGNIFICANT POST-CLOSING EVENTS

No significant event has occurred since December 31, 2014.

8. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 30, 2015.

First, second, and third quarter earnings for 2015 will be published on April 29, July 30, and October 29, 2015, respectively, after the close of trading on Euronext. Full-year earnings for 2015 will be published on February 11, 2016.

9. BUSINESS TRENDS AND OUTLOOK

The company entered 2015 with even more solid operating fundamentals than in 2014 and an even stronger balance sheet.

2015 Outlook

As for the past two years, 2015 looks unpredictable. Persistent macroeconomic, geopolitical and monetary uncertainty is liable to delay the revival of confidence and will continue to weigh heavily on companies' investment decisions.

Furthermore, Lectra sales teams in place should progressively gain momentum.

More Favorable Currency Parities

The company has based its 2015 scenarios on exchange rates at December 15, 2014, notably $1.25/€1.

The effect of converting 2014 results to the chosen 2015 exchange rates is to increase revenues and income from operations before non-recurring items by €4.5 million and €2.6 million, respectively, to €215.8 million and €22.4 million. The operating margin before non-recurring items increases by 1 percentage point to 10.4%.

Based on the estimated proportion of revenues and costs expressed in U.S. dollars or in currencies correlated with the dollar, a 5-cent fall in the euro against the dollar (at an exchange rate of $1.20/€1) would mechanically increase revenues by approximately €3.6 million and income from operations by €2 million. Conversely, a 5-cent appreciation of the euro against the dollar (i.e. $1.30/€1) would mechanically reduce revenues and income from operations by the same amounts.

The company has not hedged its currency exposure for 2015. At the date of this report, the dollar has further strengthened against the euro, with a parity of $1.13/€1; if the exchange rate were to remain close to this level, it would have a beneficial impact on the company's revenues and income.

Key Financial Metrics

Key financial metrics of the 2015 plan are (like-for-like variations):

- keeping gross profit margins on the different product lines at the same levels as in the second half of 2014, the product mix reflecting the growing importance of new software licenses, training and consulting;
- an increase of around 4% to 6% in recurring revenues. Recurring contracts are expected to increase by around 4% to 5%, and sales of spare parts and consumables by 4% to 7%, given the increase in the installed base and the activity and output at customers;
- fixed overhead costs of around €133 million, up €9.6 million (+8%) relative to 2014. Of this €133 million, €20 million, or 15%, is attributable to the company's transformation plan;
- a security ratio (i.e. the percentage of annual fixed overhead costs covered by gross profit on recurring revenues) of 78%.

As in previous years, the main uncertainty concerns the level of revenues from new systems sales. Visibility remains limited, calling for continuing caution.

The company's objective is to reach total revenues of approximately €240 million (+14% relative to 2014; +11% like-for-like) for the fiscal year, income from operations before non-recurring items of around €29 million (+47%; +30% like-for-like), an operating margin before non-recurring items of 12% (a 1.6 percentage points increase like-for-like), and net income of around €20 million (+39%).

For every €1 million increment (or decline) in revenues from new systems sales, income from operations should increase (or decrease) by approximately €0.45 million.

It should continue to exceed net income, assuming the use or the receipt of the French research tax credit and competitiveness and employment tax credit recognized in the year. In 2015, free cash flow will benefit from the refund of the 2011 research tax credit (€4.7 million).

Company Confident in its Medium-Term Growth Prospects

The transformation plan is scheduled for completion at the end of 2015. The headcount will be strengthened and resources will be reallocated to the most strategically important activities and to those geographical sectors and market sectors offering the greatest growth potential.

Bolstered by the strength of its business model and the relevance of its strategic roadmap, the company maintains the financial goals it has set for 2016 unchanged and remains confident in its growth prospects for the medium term.

The Board of Directors

February 11, 2015

Company Certification of the Fourth Quarter and Fiscal Year 2014 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 report on operations for the fourth quarter and for the fiscal year 2014 presents a true and sincere view of the significant events that occurred during the year and their impact on the financial statements, and a description of the main risks and uncertainties faced by the company.

Paris, February 11, 2015

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At December 31

(in thousands of euros)	2014	2013
Goodwill	31,724	29,986
Other intangible assets	4,406	4,403
Property, plant and equipment	16,447	13,328
Non-current financial assets	2,048	2,121
Deferred tax assets	8,084	7,171
Total non-current assets	62,709	57,009
Inventories	21,848	20,748
Trade accounts receivable	50,531	50,269
Other current assets	32,149	28,999
Cash and cash equivalents	43,484	29,534
Total current assets	148,012	129,550
Total assets	**210,721**	**186,559**

EQUITY AND LIABILITIES

(in thousands of euros)	2014	2013
Share capital	30,329	29,664
Share premium	7,282	5,043
Treasury shares	(133)	(83)
Currency translation adjustments	(8,503)	(8,721)
Retained earnings and net income	65,173	57,926
Total equity	94,148	83,829
Retirement benefit obligations	8,479	7,419
Borrowings, non-current portion	-	394
Total non-current liabilities	8,479	7,813
Trade and other current payables	53,449	45,109
Deferred revenues	48,096	43,008
Current income tax liabilities	2,857	2,391
Borrowings, current portion	394	500
Provisions for other liabilities and charges	3,298	3,909
Total current liabilities	108,094	94,917
Total equity and liabilities	**210,721**	**186,559**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended December 31, 2014	Twelve months ended December 31, 2014	Three months ended December 31, 2013	Twelve months ended December 31, 2013
Revenues	57,428	211,336	53,035	203,032
Cost of goods sold	(14,955)	(55,606)	(15,062)	(56,550)
Gross profit	42,473	155,730	37,973	146,482
Research and development	(4,124)	(13,479)	(3,247)	(12,503)
Selling, general and administrative expenses	(31,947)	(122,470)	(30,483)	(116,511)
Income (loss) from operations before non-recurring items	6,402	19,781	4,243	17,468
Non-recurring income (1)	-	-	-	11,124
Goodwill impairment	-	-	(702)	(702)
Income (loss) from operations (1)	6,402	19,781	3,541	27,890
Financial income	16	394	130	234
Financial expenses	(84)	(418)	(96)	(500)
Foreign exchange income (loss)	(119)	(361)	69	(541)
Income (loss) before tax (1)	6,215	19,396	3,645	27,084
Income tax (1)	(1,545)	(5,043)	(719)	(5,309)
Net income (loss) (1)	**4,670**	**14,353**	**2,926**	**21,775**

(in euros)				
Earnings per share:				
- basic	0.15	0.48	0.10	0.75
- diluted	0.15	0.47	0.10	0.73
Shares used in calculating earnings per share				
- basic	30,214,523	29,961,651	29,401,911	29,116,988
- diluted	30,920,311	30,750,854	30,202,642	29,664,802

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended December 31, 2014	Twelve months ended December 31, 2014	Three months ended December 31, 2013	Twelve months ended December 31, 2013
Net income (loss) (1)	4,670	14,353	2,926	21,775
Currency translation adjustments	299	382	119	119
Tax effect	(164)	(164)	-	-
Other comprehensive income (loss) to be reclassified in net income (loss)	135	218	119	119
Remeasurement of the net liability arising from defined benefits pension plans	(865)	(960)	(553)	(574)
Tax effect	283	311	188	192
Other comprehensive income (loss) not to be reclassified in net income (loss)	(582)	(649)	(365)	(382)
Total other comprehensive income	(446)	(431)	(246)	(263)
Comprehensive income (loss) (1)	**4,224**	**13,922**	**2,680**	**21,512**

(1) *At December 31, 2013, income from operations and income before tax included a non-recurring income of €11.1 million, relating to the receipt of the remaining amount due in the litigation against Induyco. Net income and comprehensive income included an income of €10 million after tax effect. A record of the lawsuit is described in note 23.2 to the consolidated financial statements of the Group at December 31, 2013, available on lectra.com.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Twelve months ended December 31 (in thousands of euros)	2014	2013
I - OPERATING ACTIVITIES		
Net income (loss)	14,353	21,775
Net depreciation, amortization and provisions	4,778	8,009
Non-cash operating expenses	(1,051)	517
Loss (profit) on sale of fixed assets	63	(17)
Changes in deferred income taxes, net value	(312)	1,393
Changes in inventories	(1,435)	584
Changes in trade accounts receivable	3,872	(5,005)
Changes in other current assets and liabilities	5,483	(4,680)
Net cash provided by (used in) operating activities [1]	25,751	22,575
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,898)	(1,879)
Purchases of property, plant and equipment	(4,880)	(2,915)
Proceeds from sales of intangible assets and property, plant and equipment	47	37
Acquisition cost of activities purchased [2]	(1,560)	-
Purchases of financial assets [3]	(2,547)	(2,407)
Proceeds from sales of financial assets [3]	2,574	2,177
Net cash provided by (used in) investing activities	(8,264)	(4,987)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	2,904	3,159
Dividends paid	(6,554)	(6,377)
Purchases of treasury shares	(2,403)	(1,389)
Sales of treasury shares	2,401	1,827
Flows on financial derivatives qualifying net investment hedges	484	-
Repayments of long term and short term borrowings [4]	(500)	(5,834)
Net cash provided by (used in) financing activities	(3,668)	(8,614)
Increase (decrease) in cash and cash equivalents	**13,819**	**8,974**
Cash and cash equivalents at opening	29,534	20,966
Increase (decrease) in cash and cash equivalents	13,819	8,974
Effect of changes in foreign exchange rates	131	(406)
Cash and cash equivalents at closing	43,484	29,534
Free cash flow before non-recurring items	19,047	6,464
Non-recurring items of the free cash flow [1]	-	11,124
Free cash flow	19,047	17,588
Income tax paid (reimbursed), net	2,997	2,834
Interest paid	-	15

(1) *At December 31, 2013, net cash provided by operating activities included €11.1 of non-recurring elements, corresponding to the receipt of the remaining amount due in the litigation against Induyco.*

(2) *At December 31, 2014, this amount corresponds to the acquisition cost of the activities of the Group's former agent in South Korea (see note 3 hereafter).*

(3) *These amounts mainly correspond to the valuation of purchases and sales of treasury shares made through the Liquidity Agreement, and for which the counterpart is shown in the corresponding cash flows arising from financing activities.*

(4) *The balance outstanding on the medium-term bank loan taken out by the company in 2007, i.e. €5.4 million at December 31, 2012, was repaid ahead of schedule on March 31, 2013, at the company's initiative.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros, except for par value per share expressed in euros)	Share capital: Number of shares	Share capital: Par value per share	Share capital: Share capital	Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
Balance at January 1, 2013	28,948,315	1.00	28,948	2,600	(380)	(8,840)	42,676	65,004
Net income (loss)							21,775	21,775
Other comprehensive income (loss)						119	(382)	(263)
Comprehensive income (loss)						119	21,393	21,512
Exercised stock options	716,100	1.00	716	2,443				3,159
Fair value of stock options							140	140
Sale (purchase) of treasury shares					297			297
Profit (loss) on treasury shares							94	94
Dividends paid							(6,377)	(6,377)
Balance at December 31, 2013	29,664,415	1.00	29,664	5,043	(83)	(8,721)	57,926	83,829
Net income (loss)							14,353	14,353
Other comprehensive income (loss)						218	(649)	(431)
Comprehensive income (loss)						218	13,704	13,922
Exercised stock options	664,699	1.00	665	2,239				2,904
Fair value of stock options							136	136
Sale (purchase) of treasury shares					(50)			(50)
Profit (loss) on treasury shares							32	32
Other variations							(71)	(71)
Dividends paid							(6,554)	(6,554)
Balance at December 31, 2014	**30,329,114**	**1.00**	**30,329**	**7,282**	**(133)**	**(8,503)**	**65,173**	**94,148**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2014

1. BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed since 1987 on Euronext (compartment B). Lectra is the world leader in software, CAD/CAM equipment and associated services dedicated to large-scale users of fabrics, leather, technical textiles and composite materials. Lectra addresses a broad array of major global markets, mainly fashion and apparel, automotive (car seats and interiors, airbags), furniture as well as a wide variety of other industries, such as the aeronautical and marine industries, and wind power.

The company's technology offer is geared to the specific needs of each market, enabling its customers to design, develop and manufacture their products (garments, seats, airbags, etc.). For the fashion and apparel industry, Lectra's software applications also facilitate the management of collections and cover the entire product lifecycle (Product Lifecycle Management, or PLM). Lectra forges long-term relationships with its customers and provides them with full-line, innovative solutions.

The Group's customers comprise large national and international corporations and medium-sized companies. Lectra helps them overcome their major strategic challenges: cutting costs and boosting productivity; reducing time-to-market; managing globalization; developing secure electronic communications; enhancing quality; satisfying the demand for mass-customization; and monitoring and developing their corporate brands. The Group markets end-to-end solutions comprising the sale of software, CAD/CAM equipment and associated services (technical maintenance, support, training, consulting, sales of consumables and spare parts).

All Lectra software and equipment is designed and developed in-house. Equipment is assembled from sub-elements produced by an international network of subcontractors and tested in the company's industrial facilities in Bordeaux–Cestas (France) where most of Lectra's R&D is performed.

Lectra's strength lies in the skills and experience of its 1,475 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of their customers' businesses.

The Group has been present worldwide since the mid-1980s. Based in France, the company serves its customers in more than 100 countries through its extensive network of 32 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivaled network, Lectra generated 91% of its revenues directly in 2014. Its five International Call Centers, in Bordeaux–Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (U.S.A.) and Shanghai (China) cover Europe, North America and Asia. All of the company's technologies are showcased at its International Advanced Technology & Conference Center in Bordeaux–Cestas (France) for Europe and international visitors, and its two International Advanced Technology Centers in Atlanta (U.S.A.) for North and South America, and Shanghai (China) for Asia and the Pacific. Lectra is geographically close to its customers wherever they are, with more than 800 employees dedicated to marketing, sales and services in the world. It employs 260 engineers dedicated to R&D, and nearly 160 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

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 recurring revenues, a key factor in the company's stability, that provide a cushion in periods of difficult economic conditions;
- the generation of annual free cash flow exceeding net income, assuming utilization or receipt of the annual research tax credit and the competitiveness and employment tax credit applicable in France.

2. SUMMARY OF ACCOUNTING RULES AND METHODS

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/accounting/ias/index_en.htm

The consolidated financial statements at December 31, 2014 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2013 financial statements. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 11, 2015. Audit procedures have been applied to the consolidated financial statements. The statutory auditors' certification report will be issued after the Board of Directors meeting on March 3, 2015, which will approve the notes to the consolidated financial statements. The Q4 financial statements have not been reviewed separately by the statutory auditors.

The standards and interpretations adopted by the European Union as of January 1, 2014 have no impact on the Group's financial statements. The Group has not adopted in advance any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2014.

Comparisons identified as "like-for-like" correspond to 2014 figures restated at 2013 exchange rates, in comparison with actual data for 2013.

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 establishment of the consolidated financial statements, relate to goodwill impairment and deferred tax.

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.

Cost of Goods Sold

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight-out costs on equipments sold, and a share of depreciation of the manufacturing facilities.

Cost of goods sold does not include salaries and expenses associated with service revenues, which are included under "Selling, General and Administrative Expenses".

Research and Development Costs

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 year 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.

Earnings per Share

Basic net earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the period, 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 period 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.

Free Cash Flow

Free cash flow is equal to net cash provided by operating activities minus cash used in investing activities—excluding cash used for acquisitions of companies (net of cash acquired).

Operating Segments

Operating segment reporting is based directly on the Group's performance tracking and review systems. The operating segments presented in note 7 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 Northern 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, and information systems. All of these cross-divisional activities are reported as an additional operating segment referred to here as the "Corporate" segment.

Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external 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.

3. SCOPE OF CONSOLIDATION

At December 31, 2014, the Group's scope of consolidation comprised the parent company, Lectra SA, together with 28 fully-consolidated companies.

In April 2014, the company established a new subsidiary in South Korea, Lectra Korea, with a view to accelerating its development in Asia.

On May 1, 2014, this subsidiary has taken over the activities of the agent that previously represented Lectra in this country for many years. The cost of the purchase by Lectra of these activities is shown in the statement of cash flows under "Acquisition cost of activities purchased". The impact of this subsidiary's creation and of the purchase of these activities on the income statement and the statement of financial position is immaterial, the bulk of sales in this country having previously been billed by Lectra SA.

Lectra Korea has been fully consolidated since May 1, 2014.

There was no other change in the scope of consolidation in 2014.

Four sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At December 31, 2014, their combined revenues totaled €0.9 million, and their combined assets in their statement of financial position totaled €1.9 million. They had no financial debt outside of the Group. Most of these subsidiaries' sales activity is billed directly by Lectra SA.

Transactions with these related parties mainly concern purchases from Lectra SA for the purposes of their local operations, or charges and commissions billed to Lectra SA in order to cover their overheads when they act as agents. The amount concerned by these transactions was not material at December 31, 2014.

4. ORDERS FOR NEW SYSTEMS

To make the discussion of revenues and earnings as relevant as possible and to better reflect the company's value proposition, changes have been introduced in the Management discussion in reporting orders and backlog for new systems from January 1, 2014. Their total amount is now communicated, while previously only the orders for new software licenses and CAD/CAM equipment were stated. 2013 amounts have been restated accordingly for comparison with 2014 data.

5. CONSOLIDATED STATEMENT OF INCOME—LIKE-FOR-LIKE CHANGE

5.1. Q4 2014

	Three Months Ended December 31				
	2014		2013	Changes 2014/2013	
(in thousands of euros)	Actual	At 2013 exchange rates	Actual	Actual	Like-for-like
Revenues	57,428	55,654	53,035	+8%	+5%
Cost of goods sold	(14,955)	(14,841)	(15,062)	-1%	-1%
Gross profit	42,473	40,813	37,973	+12%	+7%
(in % of revenues)	74.0%	73.3%	71.6%	+2.4 points	+1.7 points
Research and development	(4,124)	(4,124)	(3,247)	+27%	+27%
Selling, general and administrative expenses	(31,947)	(31,327)	(30,483)	+5%	+3%
Income (loss) from operations before non-recurring items	6,402	5,363	4,243	+51%	+26%
(in % of revenues)	11.1%	9.6%	8.0%	+3.1 points	+1.6 points
Goodwill impairment	-	-	(702)	na	na
Income (loss) from operations	6,402	5,363	3,541	+81%	+51%
(in % of revenues)	11.1%	9.6%	6.7%	+4.4 points	+2.9 points
Income (loss) before tax	6,215	5,176	3,645	+71%	+42%
Income tax	(1,545)	na	(719)	+115%	na
Net income (loss)	4,670	na	2,926	+60%	na

5.2. Fiscal Year 2014

	Twelve Months Ended December 31				
	2014		2013	Changes 2014/2013	
(in thousands of euros)	Actual	At 2013 exchange rates	Actual	Actual	Like-for-like
Revenues	211,336	212,239	203,032	+4%	+5%
Cost of goods sold	(55,606)	(55,762)	(56,550)	-2%	-1%
Gross profit	155,730	156,477	146,482	+6%	+7%
(in % of revenues)	73.7%	73.7%	72.1%	+1.6 points	+1.6 points
Research and development	(13,479)	(13,479)	(12,503)	+8%	+8%
Selling, general and administrative expenses	(122,470)	(123,170)	(116,511)	+5%	+6%
Income (loss) from operations before non-recurring items	19,781	19,828	17,468	+13%	+14%
(in % of revenues)	9.4%	9.3%	8.6%	+0.8 points	+0.7 points
Non-recurring income	-	-	11,124	na	na
Goodwill impairment	-	-	(702)	na	na
Income (loss) from operations	19,781	19,828	27,890	-29%	-29%
(in % of revenues)	9.4%	9.3%	13.7%	-4.7 points	-4.8 points
Income (loss) before tax	19,396	19,443	27,084	-28%	-28%
Income tax	(5,043)	na	(5,309)	-5%	na
Net income (loss)	14,353	na	21,775	-34%	na

6. BREAKDOWN OF REVENUES—LIKE-FOR-LIKE CHANGE

6.1. Q4 2014

Revenues by geographic region

(in thousands of euros)	Three Months Ended December 31						
	2014			2013		Changes 2014/2013	
	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	27,510	48%	27,472	22,739	43%	+21%	+21%
- France	4,580	8%	4,586	4,002	8%	+14%	+15%
Americas	14,829	26%	13,748	13,646	26%	+9%	+1%
Asia-Pacific	11,051	19%	10,424	13,278	25%	-17%	-21%
Other countries	3,940	7%	3,921	3,373	6%	+17%	+16%
Total	57,330	100%	55,565	53,035	100%	+8%	+5%

Revenues by product line

(in thousands of euros)	Three Months Ended December 31						
	2014			2013		Changes 2014/2013	
	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like
Software, of which:	16,754	29%	16,371	15,193	28%	+10%	+8%
- New licenses	5,872	10%	5,720	4,987	9%	+18%	+15%
- Software maintenance and on-line services contracts (1)	10,882	19%	10,651	10,206	19%	+7%	+4%
CAD/CAM equipment	15,516	27%	14,840	15,336	29%	+1%	-3%
Hardware maintenance and on-line services contracts (1)	7,916	14%	7,685	7,184	14%	+10%	+7%
Spare parts and consumables	13,970	24%	13,570	12,590	24%	+11%	+8%
Training and consulting services	2,640	5%	2,574	2,195	4%	+20%	+17%
Miscellaneous	534	1%	525	537	1%	-1%	-2%
Total	57,330	100%	55,565	53,035	100%	+8%	+5%

(1) *To make information as relevant as possible, as of January 1, 2014, online services have been separated for software, on one hand, and CAD/CAM equipment, on the other. They were previously grouped under the heading "hardware maintenance and online services contracts". 2013 amounts have been restated accordingly for comparison with 2014 data.*

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	Three Months Ended December 31						
	2014			2013		Changes 2014/2013	
	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales (1)	24,562	43%	23,659	23,056	43%	+7%	+3%
Recurring revenues (2), of which:	32,768	57%	31,906	29,979	57%	+9%	+6%
- Recurring contracts	18,798	33%	18,336	17,390	33%	+8%	+5%
- Spare parts and consumables	13,970	24%	13,570	12,590	24%	+11%	+8%
Total	57,330	100%	55,565	53,035	100%	+8%	+5%

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

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

6.2. Fiscal Year 2014

Revenues by geographic region

(in thousands of euros)	2014 Actual	2014 %	2014 At 2013 exchange rates	2013 Actual	2013 %	Changes 2014/2013 Actual	Changes 2014/2013 Like-for-like
Europe, of which:	98,203	46%	98,079	89,169	44%	+10%	+10%
- France	16,620	8%	16,624	16,560	8%	0%	0%
Americas	51,620	24%	51,949	55,017	27%	-6%	-6%
Asia-Pacific	47,770	23%	48,202	44,427	22%	+8%	+8%
Other countries	13,743	7%	14,009	14,419	7%	-5%	-3%
Total	211,336	100%	212,239	203,032	100%	+4%	+5%

Twelve Months Ended December 31

Revenues by product line

(in thousands of euros)	2014 Actual	2014 %	2014 At 2013 exchange rates	2013 Actual	2013 %	Changes 2014/2013 Actual	Changes 2014/2013 Like-for-like
Software, of which:	63,430	30%	63,781	60,168	30%	+5%	+6%
- New licenses	21,784	10%	21,918	20,056	10%	+9%	+9%
- Software maintenance and on-line services contracts (1)	41,646	20%	41,862	40,112	20%	+4%	+4%
CAD/CAM equipment	54,330	26%	54,267	54,613	27%	-1%	-1%
Hardware maintenance and on-line services contracts (1)	29,852	14%	30,001	28,901	14%	+3%	+4%
Spare parts and consumables	51,256	24%	51,602	49,108	24%	+4%	+5%
Training and consulting services	10,368	5%	10,480	8,351	4%	+24%	+25%
Miscellaneous	2,100	1%	2,108	1,891	1%	+11%	+11%
Total	211,336	100%	212,239	203,032	100%	+4%	+5%

Twelve Months Ended December 31

(1) To make information as relevant as possible, as of January 1, 2014, online services have been separated for software, on one hand, and CAD/CAM equipment, on the other. They were previously grouped under the heading "hardware maintenance and online services contracts". 2013 amounts have been restated accordingly for comparison with 2014 data.

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2014 Actual	2014 %	2014 At 2013 exchange rates	2013 Actual	2013 %	Changes 2014/2013 Actual	Changes 2014/2013 Like-for-like
Revenues from new systems sales (1)	88,582	42%	88,773	84,910	42%	+4%	+5%
Recurring revenues (2), of which:	122,754	58%	123,466	118,122	58%	+4%	+5%
- Recurring contracts	71,498	34%	71,864	69,013	34%	+4%	+4%
- Spare parts and consumables	51,256	24%	51,602	49,108	24%	+4%	+5%
Total	211,336	100%	212,239	203,032	100%	+4%	+5%

Twelve Months Ended December 31

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

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

Breakdown of revenues from new systems sales by market sector

(in thousands of euros)	2014 Actual	2014 %	2014 At 2013 exchange rates	2013 Actual	2013 %	Changes 2014/2013 Actual	Changes 2014/2013 Like-for-like
Fashion and apparel	41,371	47%	41,502	39,627	47%	+4%	+5%
Automotive	34,825	39%	34,812	35,275	41%	-1%	-1%
Furniture	5,832	7%	5,807	5,646	7%	+3%	+3%
Other industries	6,554	7%	6,652	4,363	5%	+50%	+52%
Total	88,582	100%	88,773	84,910	100%	+4%	+5%

Twelve Months Ended December 31

7. OPERATING SEGMENTS INFORMATION

Twelve months ended December 31, 2014 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	98,203	51,619	47,770	13,744	-	211,336
Income (loss) from operations before non-recurring items	9,415	1,699	348	1,985	6,334	19,781

Twelve months ended December 31, 2013 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	89,169	55,017	44,427	14,419	-	203,032
Income (loss) from operations before non-recurring items	8,034	2,255	(136)	1,791	5,524	17,468

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 need to be reconciled.

8. CONSOLIDATED CASH FLOW SUMMARY

Twelve months ended December 31, 2014 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash (+) Net debt (–)
Free cash flow	19,047	-	19,047
Proceeds from issuance of ordinary shares(1)	2,904	-	2,904
Sale and purchase of treasury shares(2)	(2)	-	(2)
Acquisition cost of activities purchased(3)	(1,560)	-	(1,560)
Flows on financial derivatives qualifying net investment hedges	484	-	484
Dividends paid	(6,554)	-	(6,554)
Change in borrowings	(500)	500	-
Impact of currency variations – other	131	-	131
Change in cash position for the period	13,950	500	14,450
Cash position at December 31, 2013	29,534	(894)	28,640
Cash position at December 31, 2014	43,484	(394)	43,090
Change in cash position for the period	13,950	500	14,450

(1) Resulting solely from the exercise of stock options.

(2) Carried out solely under the Liquidity Agreement administered by Exane BNP Paribas (see note 10).

(3) Relating solely to the cost of the purchase by Lectra of its former agent's activities in South Korea.

Free cash flow at December 31, 2014, amounted to €19 million (there were no non-recurring items). This figure results from a combination of €25.6 million in cash flows provided by operating activities (including a decrease in working capital requirement of €7.9 million) and capital expenditures of €6.7 million.

The main variations in working capital requirement were:

– −€3.9 million corresponding to the decrease in trade accounts receivable, due to an improvement in cash collections (the variation in trade accounts receivable includes "deferred revenues" in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues);
– +€1.4 million corresponding to the increase in inventories;
– +€0.8 million arising from the increase of the receivable on the French tax administration (*Trésor public*) corresponding to the research tax credit and the competitiveness and employment tax credit receivable. This net amount corresponded to the difference between the 2014 tax credits after deduction from the corporate income tax due by Lectra SA, accounted for but not received (€6.5 million), and the 2010 research and development tax credit reimbursed in 2014 (€5.7 million);

- −€2.9 million corresponding to the increase of customers down payments in the statement of financial position, due to new systems orders in Q4 2014 being higher than those in Q4 2013;
- −€1.5 million arising from the increase in the amount of variable compensation and profit-sharing, payable in 2015 and relating to 2014, due to greater headcount and improved results;
- −€1 million corresponding to an increase in trade accounts payable;
- −€0.8 million arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at December 31, 2014, amounted only to €0.1 million. It comprised a receivable of €23 million on the French tax administration in respect of the research tax credit and the competitiveness and employment tax credit, which have not been received and have not been deducted from the current income tax expense (see note 9 hereafter). Restated for this receivable, the working capital requirement was negative at €22.9 million, which is a key feature of the Group's business model.

9. RESEARCH TAX CREDIT – COMPETITIVENESS AND EMPLOYMENT TAX CREDIT

It should be noted that, 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.

At December 31, 2014, Lectra SA held a €23 million receivable on the French tax administration.

The company had until then deducted the most aged (2010) receivable relating to the research tax credit from its corporate income tax.

However, as the company learnt in October 2014 when it was reimbursed for its 2010 research tax credit, the French tax administration operates in a different way, deducting the tax credit from the corporate income tax of the same fiscal year. Thus, and since no corporate income tax was recorded for 2010, the company received the reimbursement in full of the research tax credit recognized in 2010 (€5.7 million).

According to this rule, the €23 million receivable held on the French tax administration at December 31, 2014, now comprises:

- the remaining amount of the research tax credit, after deduction of the corporate income tax due by Lectra SA in the same year, for 2014 (€5.7 million), 2013 (€6.1 million), 2012 (€5.1 million) and 2011 (€4.8 million);
- the competitiveness and employment tax credit accounted for and not used in 2014 (€0.8 million) and 2013 (€0.5 million).

Furthermore, the company incorporated profit-sharing expenses in the annual calculation base for the research tax credit it accounted for. Due to the French tax administration's position in questioning the eligibility of such expenses, the company had booked, for the relevant years (2010 to 2013), a provision equal to the part of the annual research tax credit calculated on these bases. In its decision of March 12, 2014, the French Council of State (*Conseil d'Etat*, the supreme court for administrative justice), confirmed that the said expenses were eligible for the fiscal years in question, thus rejecting the French tax administration's position adopted until then. As a result, the company reversed in the first quarter of 2014 the previously booked €0.7 million provision. This amount has no impact on the receivable booked, since it did not include this provision.

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, which will be deducted in full from the research tax credit and the competitiveness and employment tax credit, if any, of each fiscal year. It therefore expects to receive reimbursement of the balance outstanding of these tax credits not deducted as follows: in 2015 (in respect of the 2011 tax credit), 2016 (in respect of the 2012 tax credit), 2017 (in respect of the 2013 tax credits) and 2018 (in respect of the 2014 tax credits). 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 not to pay the corporate income tax until deduction of the corresponding receivable 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.

10. TREASURY SHARES

Since January 1, 2014, the company has purchased 302,206 shares and sold 297,682 shares at an average price of €7.95 and €8.07 respectively under the Liquidity Agreement administered by Exane BNP Paribas.

At December 31, 2014, the company held 14,932 Lectra shares (i.e. 0.05% of the share capital) with an average purchase price of €8.91 entirely under the Liquidity Agreement.

11. LIQUIDITY AND BANK BORROWINGS

11.1. Cash and Cash Equivalents and Net Cash

(in thousands of euros)	December 31, 2014	December 31, 2013
Cash and cash equivalents	43,484	29,534
Borrowings and financial debts	(394)	(894)
Net cash	43,090	28,640

The Group's net cash increased by €14.5 million in 2014, and its cash and cash equivalents by €14 million.

11.2. Borrowings and Financial Debts by Category and by Maturity

At December 31, 2014, the Group's borrowings and financial debts correspond solely to public grants to finance R&D programs repayable on March 31, 2015 (€0.4 million), after a repayment of €0.5 million was made on March 31, 2014.

12. FOREIGN EXCHANGE RISK

The Group's currency risk management policy is unchanged relative to December 31, 2013.

In 2014, the average parity between the U.S. dollar and the euro was $1.33/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at December 31, 2014 comprised forward sales or purchases of foreign currencies (mainly U.S. dollar, British pound and Hong Kong dollar) for a net total equivalent value (sales minus purchases) of €7.5 million, intended to hedge existing positions.

Thus, the company has covered almost all its balance sheet positions.

At the date of publication of this report, it has not hedged its exposure to the U.S. dollar beyond December 31, 2014.

13. SENSITIVITY ANALYSIS

Sensitivity of Income from Operations to a Change in Revenues from New Systems Sales

Under the company's business model, each €1 million increase (or decrease) in revenues from new systems sales results in a rise (or fall) in income from operations of approximately €0.45 million.

Sensitivity of Revenues and Income from Operations to a Change in Exchange Rates

The company has based its 2015 scenarios on parities fixed on December 15, 2014 for the currencies in which the Group generates its revenues, notably $1.25/€1.

In view of the estimated share of revenues and costs denominated in U.S. dollars or in currencies correlated with the dollar, a 5-cent fall in the euro against the dollar over the entire year (at an exchange rate of $1.20/€1) would mechanically increase FY 2015 revenues by approximately €3.6 million and income from operations by €2 million. Conversely, a 5-cent appreciation of the euro against the dollar (i.e. $1.30/€1) would mechanically reduce revenues and income from operations by the same amounts.

The parity at the date of this report is $1.13/€1.

In addition to fluctuating against the U.S. dollar and against currencies strongly correlated with it, the euro also fluctuates against other currencies. However, these variations are frequently heterogeneous both in direction (upward and downward) and in scale.

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