MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF 2016

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the third quarter and first nine months of 2016, ending September 30. Financial statements at September 30 have not been reviewed by the Statutory Auditors.

Detailed comparisons between 2016 and 2015 are based on 2015 exchange rates ('like-for-like') unless stated otherwise.

1. SUMMARY OF OPERATIONS FOR Q3 2016

With an average parity of \$1.12/€1, the US dollar was down slightly compared to Q3 2015 (\$1.11/€1). For its part, the yuan declined 6%. The mechanical impact of currency movements was immaterial on revenues, increasing income from operations by €0.2 million (+2%) at actual exchange rates compared with like-for-like figures.

Slight Increase in Orders for New Systems

Following a 20% increase in the first half of the year, compared to the same period in 2015, orders for new systems totaled €23.7 million, up 3%, both like-for-like and at actual exchange rates, compared to Q3 2015 (€22.9 million).

Orders for new software licenses (€5.8 million) were up 6%, and those for CAD/CAM equipment (€14.6 million) rose by 8%; orders for training and consulting (€2.7 million) were down 23%.

Continuing Growth in Revenues and Earnings

Revenues totaled €64.4 million, up 9% compared with Q3 2015, both like-for-like and at actual exchange rates.

Revenues from new systems sales increased by 12% and recurring revenues by 6%, with identical growth rates both for recurring contracts and for consumables and parts.

Income from operations amounted to €11.2 million, up 12% (+14% at actual exchange rates). The operating margin was 17.4%, increasing by 0.5 percentage points (+0.9 percentage points at actual exchange rates). It should be noted that income from operations is boosted in Q3 of each year by the natural drop in overhead costs over the summer vacation months.

Net income amounted to €8.1 million, up €1.1 million (+16%) at actual exchange rates.

Finally, free cash flow amounted to €9.1 million after receipt of the balance of €5.1 million of the 2012 French research tax credit. Free cash flow was €10.8 million in Q3 2015, including receipt of the balance of €4.8 million of the 2011 French research tax credit.

2. SUMMARY OF OPERATIONS FOR FIRST NINE MONTHS 2016 AND CONSOLIDATED FINANCIAL STATEMENTS

With an average parity of $1.12/€1, the US dollar remained stable compared with the first nine months of 2015. For its part, the yuan declined 5%.

Despite the stability of the euro/dollar exchange rate, currency movements mechanically decreased revenues by €1.7 million (–1%) and income from operations by €0.7 million (–3%) at actual exchange rates compared with like-for-like figures.

Revenues and Income from Operations in Line with the Company Roadmap

Revenues totaled €190.7 million, up 10%, and income from operations €26.6 million, up 19%.

This performance is in line with the September 30 target figures corresponding to the expectations of revenues and income from operations for 2016 announced on July 28, 2016.

Orders for New Systems

Overall, orders for new systems amounted to €80.4 million, up €10.1 million (+15%) relative to the first nine months of 2015: +8% for new software licenses, +21% for CAD/CAM equipment and –2% for training and consulting.

Geographically, the situation is highly contrasted: orders in Asia-Pacific increased by 55% and by 10% in Europe. They decreased by 17% in the Americas. In the first nine months of 2015, orders in the Americas had increased by 16%, while those in Asia-Pacific had fallen by 21%. In the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.) they increased by 2% in the first nine months of 2016.

Orders in the fashion and apparel market rose 1% and up 47% in the automotive market. They decreased by 5% in the furniture market. In the other industries, they increased by 15%. These markets respectively accounted for 46%, 39%, 10% and 5% of total orders.

Revenues

Revenues totaled €190.7 million, up 10% (+9% at actual exchange rates).

They increased in all regions: +6% in Europe, +10% in the Americas, +16% in Asia-Pacific, and +6% in the rest of the world. These regions accounted respectively for 41% (including 7% for France), 27%, 26%, and 6% of total revenues. In 2015, they accounted respectively for 43% (including 7% for France), 27%, 24%, and 6% of total revenues.

Revenues from New Systems Sales

Revenues from new systems sales (€82.6 million) increased by 13% and accounted for 43% of total revenues (42% in 2015):

- Revenues from new software licenses (€18.1 million) increased by 3% and accounted for 9% of total revenues (10% in 2015);
- CAD/CAM equipment revenues (€54.4 million) increased by 22% and accounted for 28% of total revenues (26% in 2015);
- Training and consulting revenues (€8.4 million) decreased by 8% and accounted for 4% of total revenues (5% in 2015).

Revenues from Recurring Contracts and Consumables and Parts

Recurring revenues (€108.2 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 €61.4 million, a 4% increase:

- Revenues from software evolution and online services contracts (€35.2 million), up 4% compared with 2015, represented 18% of total revenues;
- Revenues from CAD/CAM equipment maintenance and online services contracts (€26.1 million), up 5%, contributed 14% of total revenues.

Revenues from consumables and parts (€46.8 million), meanwhile, increased by 11% and represented 25% of total revenues (24% in 2015).

Order Backlog

At September 30, 2016, the order backlog for new systems (€20.6 million) was down €2.5 million relative to December 31, 2015, at actual exchange rates; it was up €3.7 million relative to September 30, 2015.

This backlog comprised €14.1 million in orders for new software licenses and CAD/CAM equipment, including €12.5 million for shipment in Q4 2016, and the remainder in 2017, and €6.5 million for training and consulting, to be delivered as projects progress.

Gross Profit

Gross profit totaled €140.8 million.

The overall gross profit margin was 73.8%. Like-for-like, it decreased by 1.6 percentage points relative to the first nine months of 2015, 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 selling, general, and administrative expenses.

Overhead Costs

Total overhead costs were €114.2 million, up €5.3 million (+5%) compared with the first nine months of 2015. They break down as follows:

- €102.2 million in fixed overhead costs (+4%);
- €12 million in variable costs (+14%).

Total overhead costs increased by 4% at actual exchange rates.

R&D costs (€16.7 million) are fully expensed in the period and included in overhead costs. They represented 8.7% of revenues (€16.5 million and 9.4% for the first nine months of 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 €11.5 million (€10.2 million in 2015).

Income from Operations and Net Income

Income from operations amounted to €26.6 million, an increase of €4.3 million (+19%) like-for-like and €3.6 million (+16%) at actual exchange rates compared with the first nine months of 2015.

The operating margin was 13.9%, up 1.1 percentage points like-for-like and 0.8 percentage points 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 €0.3 million.

After an income tax expense of €7.3 million, net income amounted to €18.7 million, up €2.8 million (+17%) at actual exchange rates.

Net earnings per share were €0.61 on basic capital and €0.59 on diluted capital (€0.52 on basic capital and €0.51 on diluted capital for the first nine months of 2015).

Free Cash Flow

Free cash flow amounted to €16.2 million, up €1.4 million compared with the first nine months of 2015. 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 (€4.9 million) and the competitiveness and employment tax credit (€0.6 million) for the first nine months of 2016 were accounted for but not received. If they had been received, free cash flow would have been €16.7 million, excluding reimbursement of the 2012 research tax credit.

Shareholders' Equity

At September 30, 2016, consolidated shareholders' equity amounted to €123 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 €67.3 million (€59.3 million at December 31, 2015).

The working capital requirement was negative at €0.4 million. This includes the receivable of €20.9 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 negative at €21.2 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.

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At September 30, 2016, the share capital totaled €31,171,205 divided into 31,171,205 shares with a par value of €1.00.

Share capital has increased by €384,806 (with a total share premium of €1,568,791) since January 1, 2016 due to the creation of 384,806 shares 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.

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 35.7% of the capital and 35.3% of the voting rights;
- Delta Lloyd Asset Management NV (the Netherlands), on behalf of investment funds and clients managed by it, and Allianz SE (Germany), through French companies controlled by it, 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 or voting rights.

Treasury Shares

At September 30, 2016, the company held 0.06% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement contracted with Exane BNP Paribas.

Share Price Performance and Trading Volumes

The company's share price at September 30, 2016, was €15.76, up 30% compared with December 31, 2015 (€12.10). It reached a low of €10.76 on February 11 and a high of €16.40 on September 5.

The CAC 40 index fell by 4% and the CAC Mid & Small index increased by 2% respectively over the first nine months of 2016.

According to Euronext statistics, the number of shares traded on Euronext (3.3 million) fell by 54%, and trading volumes (€45.2 million) were down 47% compared with for the first nine months of 2015. These figures do not include trading on any other trading platform; if the latter is included, the total trading volume represents twice the volume recorded on Euronext, according to company estimates.

4. SIGNIFICANT POST-CLOSING EVENTS

No significant event has occurred since September 30, 2016.

5. FINANCIAL CALENDAR

The Q4 and fiscal 2016 financial results will be published on February 9, 2017, after close of trading on Euronext.

6. BUSINESS TRENDS AND OUTLOOK

The company entered 2016 with even more solid operating fundamentals than in 2015 and an even stronger balance sheet.

The company reported on its business trends and outlook in its February 11, 2016 financial report and in its annual report, to which readers are invited to refer, emphasizing that 2016 looked unpredictable once again. It stated that persistent macroeconomic, geopolitical and monetary uncertainties were liable to continue to weigh heavily on companies' investment decisions.

The company then stated that its objectives for FY 2016 were to achieve a growth in revenues of 6% to 12% and a growth in income from operations of 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; as a result of this decision fixed overhead costs (after deduction of the research tax credit) were expected to rise by around €1.1 million in the second half of 2016.

Consequently, and taking into account the company's first-half financial results and business activity, Lectra stated on July 28 that henceforward it expected revenue growth of between 8% and 11% for FY 2016 and 9% to 19% growth in income from operations, like-for-like.

Financial results for Q3 and for the first nine months of the year are in line with these expectations.

The company will unveil its new roadmap for 2017-2019, upon publication of its fourth-quarter and full-year 2016 results, on February 9, 2017.

The Board of Directors

October 27, 2016

Company Certification of the Report for the Third Quarter and First Nine Months of 2016

We certify that, to our knowledge, the financial statements for the third quarter and the first nine months of 2016 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 third quarter and first nine months presents a true and sincere view of the significant events that occurred during the first nine months of the fiscal year and their impact on the financial statements, as well as a description of the main risks and uncertainties for the remaining three months of the fiscal year.

Paris, October 27, 2016

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (in thousands of euros)	September 30, 2016	December 31, 2015	September 30, 2015
Goodwill	32,885	32,769	32,479
Other intangible assets	4,376	4,890	4,907
Property, plant and equipment	20,381	19,706	18,159
Non-current financial assets	2,153	2,100	1,735
Deferred tax assets	9,225	8,696	7,818
Total non-current assets	69,020	68,161	65,098
Inventories	27,070	23,326	23,082
Trade accounts receivable	43,699	53,404	38,723
Other current assets	30,577	31,493	32,757
Cash and cash equivalents	67,268	59,347	52,043
Total current assets	168,614	167,570	146,605
Total assets	**237,634**	**235,731**	**211,703**

EQUITY AND LIABILITIES (in thousands of euros)	September 30, 2016	December 31, 2015	September 30, 2015
Share capital	31,171	30,786	30,766
Share premium	10,587	9,018	8,940
Treasury shares	(280)	(203)	(359)
Currency translation adjustments	(8,891)	(8,194)	(7,999)
Retained earnings and net income	90,413	81,547	73,905
Total equity	123,001	112,954	105,252
Retirement benefit obligations	9,871	8,420	8,552
Borrowings, non-current portion	-	-	-
Total non-current liabilities	9,871	8,420	8,552
Trade and other current payables	54,740	57,561	52,111
Deferred revenues	43,283	50,325	40,037
Current income tax liabilities	3,696	3,561	2,867
Borrowings, current portion	-	-	-
Provisions for other liabilities and charges	3,044	2,910	2,884
Total current liabilities	104,763	114,357	97,899
Total equity and liabilities	**237,634**	**235,731**	**211,703**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
Revenues	64,398	190,743	59,269	175,697
Cost of goods sold	(16,603)	(49,969)	(14,645)	(42,840)
Gross profit	47,795	140,774	44,624	132,857
Research and development	(3,361)	(11,518)	(3,015)	(10,162)
Selling, general and administrative expenses	(33,252)	(102,649)	(31,821)	(99,733)
Income from operations	11,182	26,607	9,788	22,962
Financial income	28	101	35	163
Financial expenses	(96)	(354)	(121)	(351)
Foreign exchange income (loss)	(196)	(338)	(247)	(658)
Income before tax	10,918	26,016	9,456	22,116
Income tax	(2,842)	(7,285)	(2,478)	(6,146)
Net income	**8,076**	**18,731**	**6,978**	**15,970**

(in euros)				
Earnings per share:				
- basic	0.26	0.61	0.23	0.52
- diluted	0.25	0.59	0.22	0.51
Shares used in calculating earnings per share				
- basic	31,004,440	30,910,610	30,720,879	30,583,524
- diluted	31,881,515	31,720,512	31,528,599	31,497,737

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
Net income	8,076	18,731	6,978	15,970
Currency translation adjustments	123	(697)	51	419
Tax effect	-	-	85	85
Other comprehensive income to be reclassified in net income	123	(697)	136	504
Remeasurement of the net liability arising from defined benefits pension plans	(537)	(1,118)	-	169
Tax effect	182	372	-	(43)
Other comprehensive income not to be reclassified in net income	(355)	(746)	0	126
Total other comprehensive income	(232)	(1,443)	136	630
Comprehensive income	**7,844**	**17,288**	**7,114**	**16,600**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Nine months ended September 30, 2016	Nine months ended September 30, 2015
I - OPERATING ACTIVITIES		
Net income	18,731	15,970
Net depreciation, amortization and provisions	5,175	5,740
Non-cash operating expenses	(698)	(268)
Loss (profit) on sale of fixed assets	34	38
Changes in deferred income taxes	(148)	427
Changes in inventories	(4,046)	(2,620)
Changes in trade accounts receivable	2,637	2,301
Changes in other current assets and liabilities	(1,052)	(1,970)
Net cash provided by (used in) operating activities	20,633	19,618
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(910)	(1,683)
Purchases of property, plant and equipment	(3,505)	(3,509)
Proceeds from sales of intangible assets and property, plant and equipment	22	12
Acquisition cost of activities purchased [1]	(962)	-
Purchases of financial assets [2]	(2,449)	(2,190)
Proceeds from sales of financial assets [2]	2,452	2,548
Net cash provided by (used in) investing activities	(5,352)	(4,822)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	1,954	2,094
Dividends paid	(9,274)	(7,646)
Purchases of treasury shares	(2,350)	(2,377)
Sales of treasury shares	2,364	2,178
Repayments of long-term and short-term borrowings	-	(394)
Net cash provided by (used in) financing activities	(7,306)	(6,145)
Increase (decrease) in cash and cash equivalents	**7,975**	**8,651**
Cash and cash equivalents at opening	59,347	43,484
Increase (decrease) in cash and cash equivalents	7,975	8,651
Effect of changes in foreign exchange rates	(54)	(92)
Cash and cash equivalents at closing	67,268	52,043
Free cash flow before non-recurring items	16,243	14,796
Non-recurring items of the free cash flow	-	-
Free cash flow	16,243	14,796
Income tax (paid) / reimbursed, net	(4,368)	(3,536)
Interest (paid)	-	-

(1) At September 30, 2016, this amount corresponds to the acquisition cost of the activities of the Group's former agent in Vietnam (see note 3 hereafter).

(2) 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.

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, 2015	30,329,114	1.00	30,329	7,282	(133)	(8,503)	65,327	94,302
Net income							15,970	15,970
Other comprehensive income						504	126	630
Comprehensive income						504	16,096	16,600
Exercised stock options	436,444	1.00	436	1,658				2,094
Fair value of stock options							110	110
Sale (purchase) of treasury shares					(226)			(226)
Profit (loss) on treasury shares							18	18
Dividends paid							(7,646)	(7,646)
Balance at September 30, 2015	30,765,558	1.00	30,766	8,940	(359)	(7,999)	73,905	105,252
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	457,285	1.00	457	1,737				2,194
Fair value of stock options							167	167
Sale (purchase) of treasury shares					(70)			(70)
Profit (loss) on treasury shares							30	30
Dividends paid							(7,646)	(7,646)
Balance at December 31, 2015	30,786,399	1.00	30,786	9,018	(203)	(8,194)	81,547	112,954
Net income							18,731	18,731
Other comprehensive income						(697)	(746)	(1,443)
Comprehensive income						(697)	17,985	17,288
Exercised stock options	384,806	1.00	385	1,569				1,954
Fair value of stock options							96	96
Sale (purchase) of treasury shares					(77)			(77)
Profit (loss) on treasury shares							60	60
Dividends paid							(9,274)	(9,274)
Balance at September 30, 2016	**31,171,205**	**1.00**	**31,171**	**10,587**	**(280)**	**(8,891)**	**90,413**	**123,001**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2016

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 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 more than 1,500 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 33 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 2015. Its five International Call Centers, in Bordeaux–Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) 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 (USA) for North and South America, and Shanghai (China) for the Asia-Pacific region. Lectra is geographically close to its customers wherever they are, with nearly 850 employees dedicated to marketing, sales and services in the world. Lectra employs 260 engineers dedicated to R&D, and 150 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Business Model

Lectra’s business model 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, which is the company’s growth driver, and revenues from recurring contracts and consumables and parts, a key factor in the company’s stability, which provides 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 condensed consolidated financial statements at September 30, 2016, were prepared in accordance with IAS 34 – Interim Financial Statements. They do not comprise all of the financial disclosures required in the complete financial statements and should be read in conjunction with the Group’s consolidated financial statements and corresponding notes for the fiscal year 2015, available on lectra.com.

The consolidated financial statements 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 at its meeting on October 27, 2016. Financial statements at September 30, 2015 and 2016 have not been reviewed by 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.

Comparability of the Group’s interim and annual accounts may be affected by the slightly seasonal nature of the Group’s business, which mostly achieves a higher level of revenues during the fourth quarter of the year. This, in particular, applies to sales of new software licenses and CAD/CAM equipment. Moreover, overhead costs are reduced during the third quarter due to the summer holidays in France and in European subsidiaries. These two items have a positive impact on income from operations in these quarters.

Comparisons identified as “like-for-like” correspond to 2016 figures restated at 2015 exchange rates, in comparison with actual data for 2015.

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 and software 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 equipment 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 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.

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 6 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.

3. SCOPE OF CONSOLIDATION

At September 30, 2016, the Group's scope of consolidation comprised the parent company, 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 plan 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 by Lectra 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.

There was no other change in the scope of consolidation during the first nine months of 2016.

In October 2015, the company 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 Systèmes 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.

Four sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At September 30, 2016, their combined revenues totaled €0.8 million, and their combined assets in their statement of financial position totaled €2.7 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 significant at September 30, 2016.

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

4.1. Q3 2016

	Three Months Ended September 30				
	2016		2015	Changes 2016/2015	
(in thousands of euros)	Actual	At 2015 exchange rates	Actual	Actual	Like-for-like
Revenues	64,398	64,311	59,269	+9%	+9%
Cost of goods sold	(16,603)	(16,599)	(14,645)	+13%	+13%
Gross profit	47,795	47,712	44,624	+7%	+7%
(in % of revenues)	74.2%	74.2%	75.3%	-1.1 points	-1.1 points
Research and development	(3,361)	(3,361)	(3,015)	+11%	+11%
Selling, general and administrative expenses	(33,252)	(33,410)	(31,821)	+4%	+5%
Income from operations	11,182	10,941	9,789	+14%	+12%
(in % of revenues)	17.4%	17.0%	16.5%	+0.9 points	+0.5 points
Income before tax	10,918	10,679	9,456	+15%	+13%
Income tax	(2,842)	na	(2,478)	+15%	na
Net income	8,076	na	6,978	+16%	na

4.2. First Nine Months of 2016

	Nine Months Ended September 30				
	2016		2015	Changes 2016/2015	
(in thousands of euros)	Actual	At 2015 exchange rates	Actual	Actual	Like-for-like
Revenues	190,743	192,489	175,697	+9%	+10%
Cost of goods sold	(49,969)	(50,029)	(42,840)	+17%	+17%
Gross profit	140,775	142,461	132,857	+6%	+7%
(in % of revenues)	73.8%	74.0%	75.6%	-1.8 points	-1.6 points
Research and development	(11,518)	(11,518)	(10,162)	+13%	+13%
Selling, general and administrative expenses	(102,649)	(103,632)	(99,733)	+3%	+4%
Income from operations	26,608	27,311	22,963	+16%	+19%
(in % of revenues)	13.9%	14.2%	13.1%	+0.8 points	+1.1 points
Income before tax	26,016	26,719	22,116	+18%	+21%
Income tax	(7,285)	na	(6,146)	+19%	na
Net income	18,731	na	15,970	+17%	na

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

5.1. Q3 2016

Revenues by geographic region

	Three Months Ended September 30						
	2016			2015		Changes 2016/2015	
(in thousands of euros)	Actual	%	At 2015 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	25,339	39%	25,681	25,256	42%	0%	+2%
- France	3,823	6%	3,823	4,066	7%	-6%	-6%
Americas	17,264	27%	17,233	16,733	28%	+3%	+3%
Asia-Pacific	18,118	28%	17,673	13,357	23%	+36%	+32%
Other countries	3,677	6%	3,724	3,923	7%	-6%	-5%
Total	64,398	100%	64,311	59,269	100%	+9%	+9%

Revenues by product line

	Three Months Ended September 30						
	2016			2015		Changes 2016/2015	
(in thousands of euros)	Actual	%	At 2015 exchange rates	Actual	%	Actual	Like-for-like
Software, of which:	18,289	28%	18,310	17,182	29%	+6%	+7%
- New licenses	6,406	10%	6,368	5,723	10%	+12%	+11%
- Software evolution and online services contracts	11,883	18%	11,942	11,459	19%	+4%	+4%
CAD/CAM equipment	18,064	29%	17,851	15,481	26%	+17%	+15%
Hardware maintenance and online services contracts	9,126	14%	9,172	8,491	14%	+7%	+8%
Consumables and parts	15,437	24%	15,511	14,646	25%	+5%	+6%
Training and consulting services	2,810	4%	2,801	3,005	5%	-6%	-7%
Miscellaneous	672	1%	666	464	1%	+45%	+43%
Total	64,398	100%	64,311	59,269	100%	+9%	+9%

Breakdown of revenues between revenues from new systems sales and recurring revenues

	Three Months Ended September 30						
	2016			2015		Changes 2016/2015	
(in thousands of euros)	Actual	%	At 2015 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales(1)	27,952	43%	27,686	24,673	42%	+13%	+12%
Recurring revenues(2), of which:	36,446	57%	36,625	34,596	58%	+5%	+6%
- Recurring contracts	21,009	33%	21,114	19,950	33%	+5%	+6%
- Consumables and parts	15,437	24%	15,511	14,646	25%	+5%	+6%
Total	64,398	100%	64,311	59,269	100%	+9%	+9%

(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 consumables and parts, which are statistically recurrent.*

5.2. First Nine Months of 2016

Revenues by geographic region

(in thousands of euros)	2016 Actual	2016 %	2016 At 2015 exchange rates	2015 Actual	2015 %	Changes 2016/2015 Actual	Changes 2016/2015 Like-for-like
Europe, of which:	79,492	41%	80,281	75,590	43%	+5%	+6%
- France	13,221	7%	13,220	12,204	7%	+8%	+8%
Americas	50,885	27%	51,444	46,855	27%	+9%	+10%
Asia-Pacific	48,798	26%	48,833	41,952	24%	+16%	+16%
Other countries	11,568	6%	11,931	11,300	6%	+2%	+6%
Total	190,743	100%	192,489	175,697	100%	+9%	+10%

Nine Months Ended September 30

Revenues by product line

(in thousands of euros)	2016 Actual	2016 %	2016 At 2015 exchange rates	2015 Actual	2015 %	Changes 2016/2015 Actual	Changes 2016/2015 Like-for-like
Software, of which:	53,334	28%	53,863	52,059	30%	+2%	+3%
- New licenses	18,092	9%	18,222	17,751	10%	+2%	+3%
- Software evolution and online services contracts	35,242	18%	35,641	34,308	20%	+3%	+4%
CAD/CAM equipment	54,416	28%	54,604	44,921	26%	+21%	+22%
Hardware maintenance and online services contracts	26,147	14%	26,449	25,117	14%	+4%	+5%
Consumables and spare parts	46,801	25%	47,502	42,943	24%	+9%	+11%
Training and consulting services	8,356	4%	8,382	9,116	5%	-8%	-8%
Miscellaneous	1,689	1%	1,689	1,541	1%	+10%	+10%
Total	190,743	100%	192,489	175,697	100%	+9%	+10%

Nine Months Ended September 30

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2016 Actual	2016 %	2016 At 2015 exchange rates	2015 Actual	2015 %	Changes 2016/2015 Actual	Changes 2016/2015 Like-for-like
Revenues from new systems sales(1)	82,553	43%	82,898	73,329	42%	+13%	+13%
Recurring revenues(2), of which:	108,190	57%	109,592	102,368	58%	+6%	+7%
- Recurring contracts	61,389	32%	62,090	59,425	34%	+3%	+4%
- Consumables and spare parts	46,801	25%	47,502	42,943	24%	+9%	+11%
Total	190,743	100%	192,489	175,697	100%	+9%	+10%

Nine Months Ended September 30

(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 consumables and parts, which are statistically recurrent.*

Breakdown of revenues from new systems sales by market sector

(in thousands of euros)	2016 Actual	2016 %	2016 At 2015 exchange rates	2015 Actual	2015 %	Changes 2016/2015 Actual	Changes 2016/2015 Like-for-like
Fashion and apparel	34,300	42%	34,625	33,758	46%	+2%	+3%
Automotive	34,910	42%	34,703	26,054	36%	+34%	+33%
Furniture	8,406	10%	8,622	10,320	14%	-19%	-16%
Other industries	4,937	6%	4,948	3,197	4%	+54%	+55%
Total	82,553	100%	82,898	73,329	100%	+13%	+13%

Nine Months Ended September 30

6. OPERATING SEGMENTS' INFORMATION

Nine months ended September 30, 2016 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	79,493	50,885	48,798	11,567	-	190,743
Income (loss) from operations	13,173	7,029	3,031	1,786	1,588	26,607

Nine months ended September 30, 2015[(1)] (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	75,590	46,855	41,952	11,300	-	175,697
Income (loss) from operations	11,678	5,455	927	1,997	2,905	22,962

(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, but seasonal variations of revenues and overhead costs may lead to a different result every quarter.

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

7. CONSOLIDATED CASH FLOW SUMMARY

Nine months ended September 30, 2016 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	16,243	-	16,243
Proceeds from issuance of ordinary shares[(1)]	1,954	-	1,954
Sale and purchase of treasury shares[(2)]	14	-	14
Acquisition cost of activities purchased	(962)	-	(962)
Dividends paid	(9,274)	-	(9,274)
Impact of currency variations – other	(54)	-	(54)
Change in cash position for the period	7,921	-	7,921
Cash position at December 31, 2015	59,347	-	59,347
Cash position at September 30, 2016	67,268	-	67,268
Change in cash position for the period	7,921	-	7,921

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

(2) Carried out solely under the Liquidity Agreement administered by Exane BNP Paribas (see note 9).

Free cash flow at September 30, 2016, was €16.2 million. This figure results from a combination of €20.6 million in cash flows provided by operating activities (including an increase in working capital requirement of €2.5 million) and capital expenditures of €4.4 million.

The main variations in working capital requirement were:

- –€2.6 million corresponding to the decrease in trade accounts receivable (the variation in trade accounts receivable shown in the consolidated statement of cash flows includes 'deferred revenues' in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues);
- +€4 million corresponding to the increase in inventories;

- −€2.9 million 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 the first nine months of 2016 after deduction from the corporate income tax due by Lectra SA for the same period, accounted for but not received, and the balance outstanding relating to the 2012 research tax credit received in Q3 2016 (see note 8 hereafter);
- +€2.7 million corresponding to a decrease in trade accounts payable;
- +€1.3 million arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at September 30, 2016, was negative at €0.4 million. It comprised a receivable of €20.9 million on the French tax administration in respect of the research tax credit, which has not been received and has not been deducted from the corporate income tax expense (see note 8 hereafter). Restated for this receivable, the working capital requirement was negative at €21.2 million, which is a key feature of the Group's business model.

8. 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 the first nine months of 2016 have been entirely deducted from the corporate income tax due by Lectra SA.

Thus, at September 30, 2016, Lectra SA held a €20.9 million 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 (€1.9 million), 2015 (€5.7 million), 2014 (€6.9 million) and 2013 (€6.3 million).

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 €5.1 million 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.

9. TREASURY SHARES

Since January 1, 2016, the company has purchased 172,557 shares and sold 173,099 shares at an average price of €13.62 and €13.66 respectively under the Liquidity Agreement administered by Exane BNP Paribas.

At September 30, 2016, the company held 17,798 Lectra shares (i.e. 0.06% of the share capital) with an average purchase price of €15.76 entirely under the Liquidity Agreement.

10. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	September 30, 2016	December 31, 2015
Cash and cash equivalents	67,268	59,347
Borrowings and financial debts	-	-
Net cash	67,268	59,347

After the repayment on March 31, 2015 of the remaining of public grants to finance R&D programs for €0.4 million, 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 €67.3 million.

11. FOREIGN EXCHANGE RISK

The Group's currency risk management policy is unchanged relative to December 31, 2015.

During the first nine months of 2016, the average parity between the US dollar and the euro was $1.12/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at September 30, 2016 comprised forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of €2.2 million, intended to hedge existing balance sheet positions. Thus, the company has hedged almost all its balance sheet positions.

At the publication date of this report, the company has not hedged its net exposure to the US dollar on its operating flows.

12. 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 2016 scenarios on the December 31, 2015 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 2016 annual revenues by approximately €4.4 million and annual income from operations by €2.4 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.

The parity is $1.09/€1 at the date of this report.

In addition to fluctuating against the US dollar and against 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.