MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE FOURTH QUARTER AND FULL YEAR OF 2016

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, 2016. Audit procedures have been performed by the Statutory Auditors. The certification report will be issued at the end of the Board of Directors meeting of February 23, 2017.

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

1. SUMMARY OF OPERATIONS FOR Q4 2016

With an average parity of $1.08/€1, the US dollar was up 1% compared to Q4 2015 ($1.09/€1). For its part, the yuan declined 5%. The mechanical impact of currency movements increased revenues by €0.5 million (+1%) and income from operations by €0.4 million (+4%) at actual exchange rates compared with like-for-like figures.

Record Orders for New Systems

Following a 15% increase in the first nine months, compared to the same period in 2015, orders for new systems totaled €35.2 million, up 10%, both like-for-like and at actual exchange rates, compared to Q4 2015, which had already registered a high level of orders. These amounted to €26.1 million, €30.5 million and €23.7 million, respectively, in the first, second and third quarters of 2016.

This quarterly level of orders is a record high for the Company.

Orders for new software licenses (€6.8 million) were up 3%, and those for CAD/CAM equipment (€23.9 million) rose by 10% and orders for training and consulting (€4 million) by 28% thanks to the signature of several major projects.

Continuing Growth in Revenues and Earnings

Revenues totaled €69.4 million, up 11% compared with Q4 2015 (+12% at actual exchange rates).

Revenues from new systems sales increased by 16% and recurring revenues by 7% with recurring contracts and consumables and parts both growing at the same pace.

Income from operations amounted to €10.7 million, up 17% (+21% at actual exchange rates).

The operating margin amounted to 15.4%, increasing by 0.9 percentage point (+1.2 percentage points at actual exchange rates).

Net income amounted to €7.9 million, up €0.5 million (+7%) at actual exchange rates, after a tax expense of €2.6 million. The latter includes a charge of €0.4 million reflecting a re-measurement of the deferred tax position of Lectra SA, resulting from the planned reduction of the corporate income tax rate applicable in France, enacted in the 2017 Budget Act *(loi de finances pour 2017)* which will apply progressively starting in 2018. This decision is a positive one, however, as it will lead to a reduction of the Group income tax charge in the mid-term.

Finally, free cash flow was €7.6 million (€6.7 million in Q4 2015).

2. SUMMARY OF EVENTS AND PERFORMANCE IN 2016

Tough Macroeconomic Conditions

In its February 11, 2016 report, the Company stated that it entered 2016 with even more solid operating fundamentals than in 2015 and an even stronger balance sheet. Lectra's newly formed sales teams were expected progressively to build momentum.

It further stated that the outlook for 2016 looked unpredictable once again.

Macroeconomic and geopolitical conditions were indeed difficult year-long, especially so in some countries, with the US elections and their impact on Mexico, the political and economic situations in Brazil and Turkey, weak growth in much of Western European, terrorist attacks or the risk of attacks in a growing number of countries, etc. These conditions continued to weigh on corporate investment decisions.

Strong Growth in Orders for New Systems

Overall, orders for new systems amounted to €115.6 million, up €13.5 million (+13%) relative to 2015: +6% for new software licenses, +17% for CAD/CAM equipment and +5% for training and consulting.

Geographically, the situation is highly contrasted: orders in Asia-Pacific increased by 47% and by 18% in Europe. They decreased by 26% in the Americas (–21% in North America and –44% in South America)—in 2015, orders in the Americas increased by 55%, while those in Asia-Pacific decreased by 1%. In the rest of the world (North Africa, South Africa, Turkey, the Middle East, etc.) they decreased by 1%.

Orders rose 3% in the fashion and apparel market, 36% in the automotive market, and 6% in the furniture market. In the other industries, they decreased by 12%. These markets respectively accounted for 45%, 40%, 10% and 5% of total orders.

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

The Company's stated objectives for FY 2016 at the beginning of the year were to grow revenues by 6% to 12% and to grow income from operations by 8% to 25%, like-for-like.

With June 30 results in line with its roadmap, the Company decided to step up its R&D plan with effect from July 1, 2016; this decision was expected to increase fixed overhead costs while slowing the growth of income from operations. Revising its initial objectives accordingly, the Company stated that it now expected revenue growth of between 8% and 11% for FY 2016, and 9% to 19% growth in income from operations, like-for-like.

Revenues totaled €260.2 million, up by 10% relative to 2015 (+9% at actual exchange rates).

Income from operations reached €37.3 million, up €5.8 million (+18%) and the operating margin was 14.3%, up 1 percentage point. At actual exchange rates, the increase is up 17% and 0.9 percentage point respectively.

These results are at a record high for the Company, at the top of the range of expected revenues and income from operations for FY 2016, as indicated on July 28 and confirmed on October 28, as well as for the objectives set at the beginning of the year before the decision to step up the R&D program.

Net income reached €26.7 million, up by €3.3 million (+14%) at actual exchange rates.

Increased Free Cash Flow

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

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

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

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

3. ASSESSMENT OF 2013-2016 STRATEGIC ROADMAP

In order to emerge strengthened from the 2008-2009 economic and financial crisis, to prepare for new post-crisis challenges and seize resulting opportunities, Lectra deployed a first roadmap for the 2010–2012 period. The results clearly demonstrated its effectiveness, and Lectra's robust business model and resilience.

To maintain this momentum, a second roadmap was rolled out for the 2013-2015 period.

In February 2014, in response to slower than anticipated global growth and more uncertain macroeconomic conditions, and as a precautionary measure, Lectra postponed the financial objectives initially set for 2015 until the end of 2016. Consequently, the roadmap was extended to cover the period from 2013 to 2016 and the Company's financial report carried a progress report each year.

A Successful Company Transformation

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

Lectra's five strategic objectives have guided the Company's actions over the four-year period. They are: to accentuate Lectra's technological leadership and further enhance the value of its product and service offer; to strengthen the Company's competitive position and long-term relationships with customers; to accelerate organic growth and preserve cash for future acquisitions; to boost profitability by regularly increasing the operating margin; and to generate free cash flow in excess of net income, to enable the Company to self-finance future growth.

Lectra has emerged entirely transformed from this period. It has bolstered its technological advance, enhanced the expertise of its teams and the value of its offer, notably in cutting room automation. It has boosted its overall competitiveness, forged strong relationships with prestigious customers in all of its main market sectors and geographic markets, consolidated its positions in automotive and fashion and apparel, and acquired strong positions in furniture. Finally, Lectra's revenues, income from operations, operating margin, net income and free cash flow have all—excluding non-recurring items—risen annually, reaching record levels, enabling the Company to fund its growth internally. With its emphasis on organic growth, Lectra has not made any acquisitions.

Enhanced Capabilities In All Areas

Launched at the end of 2011 and completed by the close of 2015, the transformation plan and €50 million in investments for the future, fully expensed, served to renew and substantially strengthen

Lectra's workforce. Resources were successfully reallocated to the most strategic activities and the most promising market sectors and geographic markets. Lectra's workforce at December 31, 2016 totaled 1,550 people (compared to 1,338 at end-2011), 42% of whom joined in the last five years. Over the same period, the Company boosted training, while bringing its image into sharper focus and raising its profile.

Lectra's Bordeaux-Cestas campus—emblematic of the Company's strategy and a showcase for its expertise—was extended and totally refurbished to better welcome customers from all over the world. The campus creates a highly modern setting for Lectra's workforce fostering creativity and the sharing of information and experience. As a privileged venue for dialogue and international gatherings, the campus will be a major asset in years to come.

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

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

Fundamental Advances in Technology

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

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

Record Financial Results

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

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

The Group's balance sheet has never been so strong. Thanks to a cumulative free cash flow of €70.8 million over the 2013-2016 period, net cash rose to €75.7 million after payment of €29.9 million in aggregate dividends in respect of FY 2012 to 2015. The Company has been debt free since March 2015 and shareholders' equity has more than doubled in four years, to €132.6 million on

December 31, 2016. Finally, the working capital requirement was a negative €22.8 million after restatement of the receivable of €21.6 million on the French tax administration (*Trésor public*) corresponding to the research tax credit recognized since fiscal year 2013 but not yet received or offset against income tax, representing a decline of €9.4 million compared to 2012.

Meanwhile, Lectra's share price multiplied by 3.8, rising from €4.73 on December 31, 2012 to €18.02 on December 31, 2016, and market capitalization multiplied by 4.1, increasing from €137 million to €562 million.

A Strong Foundation for Future Developments

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

4. CONSOLIDATED FINANCIAL STATEMENTS FOR 2016

With an average parity of $1.11/€1, the US dollar remained stable compared with 2015, while the yuan declined 5%.

Despite the stability of the euro/dollar exchange rate, currency movements mechanically decreased revenues by €1.3 million (–0.5%) and income from operations by €0.4 million (–1%) at actual exchange rates compared with like-for-like figures.

Revenues

Revenues totaled €260.2 million, up 10% like for like and +9% at actual exchange rates.

They increased in all regions: +7% in Europe, +5% in the Americas, +23% in Asia-Pacific, and +5% in the rest of the world. These regions respectively accounted for 41% (including 7% for France), 27%, 26%, and 6% of total revenues. In 2015, these regions respectively accounted for 43% (including 7% for France), 28%, 23%, and 6% of total revenues.

Revenues from New Systems Sales

Revenues from new systems sales (€113.1 million) increased by 14% and accounted for 43% of total revenues (42% in 2015):

- Revenues from new software licenses (€24.5 million) increased by 4% and accounted for 9% of total revenues (10% in 2015);
- CAD/CAM equipment revenues (€74.7 million) increased by 22% and accounted for 29% of total revenues (26% in 2015);
- Training and consulting revenues (€11.6 million) decreased by 5% and accounted for 4% of total revenues (5% in 2015).

Revenues from Recurring Contracts and Consumables and Parts

Recurring revenues (€147.1 million) increased by 7%. They accounted for 57% of total revenues (58% in 2015).

Revenues from recurring contracts—which contributed 57% of recurring revenues and 32% of total revenues—totaled €83.1 million, a 5% increase:

- Revenues from software evolution and online services contracts (€47.4 million), up 4% compared with 2015, represented 18% of total revenues;
- Revenues from CAD/CAM equipment maintenance and online services contracts (€35.7 million), up 7%, contributed 14% of total revenues.

Revenues from consumables and parts (€64 million), meanwhile, increased by 10% and represented 25% of total revenues, as in 2015.

Order Backlog

At December 31, 2016, the order backlog for new systems (€25.8 million) was up €2.8 million relative to December 31, 2015 at actual exchange rates.

This backlog comprised €18.3 million in orders for new software licenses and CAD/CAM equipment, including €16 million for shipment in Q1 2017, and the remainder over the rest of the year, and €7.5 million for training and consulting, to be supplied as projects progress.

Gross Profit

Gross profit amounted to €191.7 million, an increase of €13.7 million compared to 2015.

The overall gross profit margin was 73.7%. Like-for-like, it decreased by 1.6 percentage points relative to 2015, primarily as a result of changes in the sales mix.

Personnel expenses and other operating expenses incurred in the execution of service contracts or in training and consulting are not included in the cost of goods sold but are accounted for in overhead costs.

Overhead Costs

Total overhead costs were €154.5 million, up €7.8 million (+5%) compared with 2015. They break down as follows:

- €138 million in fixed overhead costs (+4%);
- €16.5 million in variable costs (+12%).

Total overhead costs increased by 5% at actual exchange rates.

R&D costs (€22.6 million) are fully expensed in the period and included in overhead costs. They represented 8.7% of revenues (€22.4 million and 9.4% in 2015). After deducting the research tax credit and the corresponding portion of the competitiveness and employment tax credit applicable in France, net R&D costs amounted to €15.5 million (€14.3 million in 2015).

Income from Operations and Net Income

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

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

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

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

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

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

Free Cash Flow

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

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

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

Shareholders' Equity

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

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

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

When these tax credits cannot be deducted from corporate income tax, they are treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the Company in the fourth year. Thus, the Company received in Q3 2016 and 2015 the reimbursement of the balance of the 2012 and 2011 research tax credits.

5. APPROPRIATION OF EARNINGS

Dividend Raised to €0.35 per Share

The Board of Directors will propose to the annual Ordinary Shareholders' Meeting of April 28, 2017 to increase the dividend to €0.35 per share (+17%) in respect of FY 2016. This dividend would represent a payout ratio of 41% of 2016 net income and a yield of 1.9% based on the December 31, 2016 closing share price.

Previous dividends were €0.30 per share in respect of fiscal 2015, €0.25 per share in respect of 2014 and €0.22 in respect of fiscal 2013.

Subject to approval by the shareholders, the dividend will be made payable on May 5, 2017.

6. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At December 31, 2016, the share capital totaled €31,247,554, divided into 31,247,554 shares with a par value of €1.00.

Share capital has increased by €461,155 (with a total share premium of €1,893,326) due to the creation of 461,155 shares since January 1, 2016, resulting from the exercise of stock options.

Main Shareholders

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

Moreover, on November 23, 2016, Kempen Capital Management (Netherlands) reported that its fund Kempen Oranje Participaties, which it manages, had increased its shareholding above the thresholds of 5% of the Company's capital stock and voting rights, and that, at that date, it held 5.07% of the capital stock and 5.01% of the voting rights.

No other crossing of statutory thresholds has been notified to the Company since January 1, 2016.

At the date of publication of this report, and to the Company's knowledge:

- André Harari and Daniel Harari together hold 35.6% of the capital and 35.2% of the voting rights;
- Delta Lloyd Asset Management NV (Netherlands), on behalf of investment funds and clients that it manages, Kempen Oranje Participaties (Netherlands), and Allianz SE (Germany) through French companies it controls, each hold more than 5% (but less than 10%) of the capital and the voting rights.

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

Treasury Shares

At December 31, 2016, the Company held 0.02% 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 December 31, 2016 was €18.02, up 49% compared with December 31, 2015 (€12.10). During the year, it reached a low of €10.76 on February 11 and a high of €18.32 on December 29.

The CAC 40 index and the CAC Mid & Small index rose 5% and 7% respectively in 2016.

According to Euronext statistics, the number of shares traded on Euronext (4.8 million) fell by 45%, and trading volumes (€69.1 million) were down 32% compared with 2015. These figures do not include trading on other trading platforms; if the latter are included, the total trading volume represents almost twice the volume recorded on Euronext, according to Company estimates.

In its press release of April 4, 2016, Lectra confirmed that it is eligible for inclusion in French SME ("PEA-PME") equity savings plans qualifying for tax relief in France dedicated to investments in European small- and mid-cap companies.

7. SIGNIFICANT POST-CLOSING EVENTS

No significant event has occurred since December 31, 2016.

8. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 28, 2017.

First, second, and third quarter earnings for 2017 will be published on April 27, July 27, and October 30, 2017, respectively, after the close of trading on Euronext. Full year earnings for 2017 will be published on February 12, 2018.

9. BUSINESS TRENDS AND OUTLOOK

A Long-Term Vision

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

Four Major Trends Will Shape Lectra's Market Sectors and Geographic Markets

Across the world, Lectra's customers face fast-changing economic and societal conditions, with wide regional variations. At the same time as pursuing their quest for operational excellence—more crucial today than ever—Lectra's customers must adapt to emerging trends set to significantly impact their future.

First, the Millennials. Born between 1980 and 2000, this generation represents the largest population of working age in history, and in a few years will equate to the largest number of consumers in the world. Brought up in a digital world, Millennials are shaking up rules, behavior, needs and demands in terms of deliveries, quality, patterns of consumption, product personalization and respect for the environment.

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

Thirdly, the emergence of Industry 4.0. This concept, articulated in Germany in 2010 to tackle growing competition from emerging countries, has spearheaded today's fourth industrial revolution. Since then, many countries have launched similar initiatives to modernize industrial tools, with a view to building smart factories. Examples include 'Manufacturing USA' in the United States, *Industrie du Futur* (the factory of the future) in France, and 'Made in China 2025' in China. Founded on the digitalization of industrial processes—from design to production—Industry 4.0 is charting a new organization for factories, increasing their flexibility while making better use of available resources. Real-time communication between different participants, objects, production lines and services is at the heart of Industry 4.0.

Lastly, there is China's evolving economy. The country is accelerating its transition towards a growth model firmly anchored in consumption, added-value and productivity. While this evolution will create new opportunities, substantial challenges for both Chinese and non-Chinese companies will also emerge, with global consequences. Major Chinese industrial apparel companies are moving up the value chain. The most advanced are developing their own brands and launching first on the Chinese market, before entering international markets in certain cases. China is intent on retaining its dominant position on the global industrial stage, with the government propelling factories towards full modernization.

For its automotive industry—already world number one—by 2020 China is expected to account for nearly a third of all light vehicles produced in the world. In parallel, China is already the world's number one consumer of cars, with enormous growth potential. Indeed, its premium segment is set to overtake the United States in 2020. The impact of this upscaling is reverberating across the entire production chain, from large global groups present in China to national automakers and suppliers. Finally, the furniture market, dominated by local brands, will continue to grow in step with the rise of China's middle class. Furniture exports are expected to decline progressively as a proportion of total output.

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

Lectra, an Indispensable Player in Industry 4.0

Industry 4.0 presents an unprecedented opportunity for Lectra, calling for the integration of smart solutions and services, and the replacement of production plants incompatible with connected factory concepts. The combination of SaaS (Software as a Service, which refers to the sale of software as if it were a service*)* with the cloud are opening up new horizons for innovation*.*

Factories are at the heart of the value chain, propelling a new digitalized lifecycle for products for the benefit of consumers. With Industry 4.0, mass production will leave more and more room for large scale personalized—and profitable—manufacturing, with greater quality and no added costs or delays. This shift will force all businesses to integrate modular solutions and connected, smart services, an essential condition of continuing competitiveness in the digital age. Fashion and apparel, as well as automotive and furniture manufacturers will have to ramp up their transformation, adopting the technologies and services shaping Industry 4.0.

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

With ten years' experience in the industrial Internet of things, combined with its expertise in software solutions to automate and optimize the design and development of fashion collections, Lectra is in a formidable position to help customers step into this new industrial age. Lectra is the only player in its industry to propose a complete added-value offer, compatible with Industry 4.0 and critical to its deployment, across all market sectors and geographic markets.

In 2007, Lectra blazed a new trail when it fitted over a hundred sensors to its *Vector* automated cutter. Its capacity to develop and program its own electronics enables the Company to manage in real time information emitted by the many hundreds of thousands of sensors installed in current generations of *Vector*, *Versalis* and *FocusQuantum.* It also creates a high entry barrier for competitors, still reliant on standard electronic boards. In total, over 3,000 machines are—or can be—connected across 2,000 production sites worldwide. As a result, Lectra delivers preventive and predictive maintenance by channeling enriched real-time information from its equipment in operations upstream to the Company's experts in its five international call centers.

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

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

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

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

A New Strategic Roadmap for 2017-2019

Developing the Business Model for Profitable, Long-Term Growth

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

Its five strategic objectives are:

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

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

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

- China: as the country upgrades its manufacturing plant and expands its domestic market, supported by the Chinese government’s strategic ‘Made in China 2025’ initiative;
- Leather: this is increasingly used in the automotive and furniture industries. Almost all materials are still cut by hand, but cutting processes need to be automated;
- Airbags: due to the growing number being fitted to each vehicle, and to the potential to renew installed bases for older-generation automated cutters;

- Personalization of consumer products : the entire value chain needs to be fully automated and interconnected, requiring hefty investments in cutting-edge technology;
- Finally, the digitalization of the fashion and apparel industry, which implies adopting collaborative technologies to facilitate management of collections and products.

Macroeconomic Assumptions

The roadmap is based on macroeconomic forecasts known on the date of this report. These suggest a slight pick-up in global growth over the next three years. However, geopolitical tensions, new fiscal and regulatory measures following elections in 2016 and 2017—notably in the United States and Europe—and the possible calling into question of free trade agreements, as well as fresh currency turmoil, could breed uncertainty and impact businesses' investment decisions throughout the period.

However conditions turn out, businesses in Lectra's different market sectors and geographic markets will have no choice but to adapt and deploy technologies compatible with Industry 4.0 in response to the new challenges inherent in the four broad trends described above.

Financial Objectives

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

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

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

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

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

Increased Investment in the Design and Development of Lectra's Offers

Lectra will continue to invest actively in innovation to reinforce its competitive leadership and value proposition. R&D expenditures will progressively rise, averaging around 10% of annual revenues over the period, compared to 9.4% for the previous roadmap.

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

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

Use of Available Cash

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

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

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

Finally, subject to shareholder approval at the Ordinary Shareholders' Meeting on April 28, 2017, Lectra could, exceptionally, repurchase its own shares, excluding those covered by the liquidity agreement, up to a maximum of €50 million, in order to tender them in exchange, or as payment, as part of external growth operations.

Progress Reports on the Roadmap

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

2017 Outlook

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

2017 looks unpredictable once again. Persistent macroeconomic, geopolitical, political and currency uncertainties, together with increased risk, are liable to continue to weigh heavily on businesses' investment decisions.

As in previous years, the main uncertainty concerns the level of orders for new systems and corresponding revenues. Visibility remains limited, calling for continued caution.

In these conditions, the Company is targeting 6 to 12% revenue growth and 7 to 15% growth in income from operations before non-recurring items, like-for-like.

The Company has not hedged its currency exposure for 2017.

The Company Remains Confident in its Medium-Term Growth Prospects

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

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

The Board of Directors

February 9, 2017

Company Certification of the Fourth Quarter and Fiscal Year 2016 Report

We certify that, to our knowledge, the financial statements of the fourth quarter and fiscal year 2016 have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and financial 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 2016 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 9, 2017

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At December 31

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

EQUITY AND LIABILITIES

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

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended December 31, 2016	Twelve months ended December 31, 2016	Three months ended December 31, 2015	Twelve months ended December 31, 2015
Revenues	69,418	260,162	62,188	237,886
Cost of goods sold	(18,447)	(68,417)	(15,740)	(58,580)
Gross profit	50,971	191,745	46,448	179,306
Research and development	(3,933)	(15,451)	(4,155)	(14,317)
Selling, general and administrative expenses	(36,364)	(139,013)	(33,436)	(133,169)
Income from operations	10,674	37,281	8,858	31,820
Financial income	52	153	82	245
Financial expenses	(100)	(454)	(111)	(462)
Foreign exchange income (loss)	(124)	(462)	171	(487)
Income before tax	10,502	36,518	8,999	31,116
Income tax	(2,571)	(9,856)	(1,592)	(7,738)
Net income	**7,931**	**26,662**	**7,407**	**23,377**

(in euros)				
Earnings per share:				
- basic	0.25	0.86	0.24	0.76
- diluted	0.25	0.84	0.24	0.74
Shares used in calculating earnings per share				
- basic	31,192,941	30,981,579	30,750,312	30,625,563
- diluted	32,017,556	31,794,646	31,477,282	31,498,591

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended December 31, 2016	Twelve months ended December 31, 2016	Three months ended December 31, 2015	Twelve months ended December 31, 2015
Net income	7,931	26,662	7,407	23,377
Currency translation adjustments	142	(555)	(195)	224
Tax effect	212	212	-	85
Other comprehensive income to be reclassified in net income	354	(343)	(195)	309
Remeasurement of the net liability arising from defined benefits pension plans	972	(146)	229	398
Tax effect	(332)	40	(65)	(108)
Other comprehensive income not to be reclassified in net income	640	(106)	164	290
Total other comprehensive income	994	(449)	(31)	599
Comprehensive income	**8,925**	**26,213**	**7,376**	**23,976**

CONSOLIDATED STATEMENT OF CASH FLOWS

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

(1) At December 31, 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							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	112,955
Net income							26,662	26,662
Other comprehensive income						(343)	(106)	(449)
Comprehensive income						(343)	26,556	26,213
Exercised stock options	461,155	1.00	461	1,893				2,354
Fair value of stock options							142	142
Sale (purchase) of treasury shares					112			112
Profit (loss) on treasury shares							81	81
Dividends paid							(9,274)	(9,274)
Balance at December 31, 2016	**31,247,554**	**1.00**	**31,248**	**10,912**	**(91)**	**(8,537)**	**99,052**	**132,583**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2016

1. BUSINESS ACTIVITY

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

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

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

Worldwide Presence

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

Customers

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

Products and Services

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

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

People

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

Nearly 850 global employees are committed to marketing, sales and services, and 270 engineers are totally dedicated to R&D, while 150 employees work in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Call Centers

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

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

Business Model

Lectra's business model is based on three pillars:

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

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/company-reporting/ifrs-financial-statements/index_en.htm

The consolidated financial statements at December 31, 2016 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2015 financial statements. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 9, 2017. 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 February 23, 2017, 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 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. It is currently evaluating the impacts of the adoption of IFRS 15 – *Revenue from Contracts with Customers*, and IFRS 9 – *Financial Instruments*, which would be applicable from January 1, 2018, as well as IFRS 16 – *Leases*, which would be applicable from January 1, 2019, provided it is adopted by the European Union.

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. 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, 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 in Asia.

Fully consolidated since June 30, 2016 in the Group's financial statements, Lectra Vietnam assumed on July 1, 2016 the assets of the agent who had previously represented Lectra in Vietnam for many years. The cost of the purchase of this activity is shown in the statement of cash flows under

‘Acquisition cost of activities purchased’. The impact on the income statement and the statement of financial position of the Group was immaterial, the bulk of sales in this country having been until then billed by Lectra SA.

There was no other change in the scope of consolidation in 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 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 December 31, 2016, their combined revenues totaled €1.3 million, and their combined assets in their statement of financial position totaled €2.8 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 December 31, 2016.

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

4.1. Q4 2016

	Three Months Ended December 31				
	2016		2015	Changes 2016/2015	
(in thousands of euros)	Actual	At 2015 exchange rates	Actual	Actual	Like-for-like
Revenues	69,418	68,949	62,188	+12%	+11%
Cost of goods sold	(18,447)	(18,422)	(15,740)	+17%	+17%
Gross profit	50,971	50,527	46,448	+10%	+9%
(in % of revenues)	73.4%	73.3%	74.7%	-1.3 points	-1.4 points
Research and development	(3,933)	(3,933)	(4,155)	-5%	-5%
Selling, general and administrative expenses	(36,364)	(36,205)	(33,436)	+9%	+8%
Income from operations	10,674	10,389	8,857	+21%	+17%
(in % of revenues)	15.4%	15.1%	14.2%	+1.2 points	+0.9 points
Income before tax	10,502	10,217	8,999	+17%	+14%
Income tax	(2,571)	na	(1,592)	+61%	na
Net income	7,931	na	7,407	+7%	na

4.2. Fiscal Year 2016

	Twelve Months Ended December 31				
	2016		2015	Changes 2016/2015	
(in thousands of euros)	Actual	At 2015 exchange rates	Actual	Actual	Like-for-like
Revenues	260,162	261,438	237,886	+9%	+10%
Cost of goods sold	(68,417)	(68,451)	(58,580)	+17%	+17%
Gross profit	191,745	192,987	179,306	+7%	+8%
(in % of revenues)	73.7%	73.8%	75.4%	-1.7 points	-1.6 points
Research and development	(15,451)	(15,451)	(14,317)	+8%	+8%
Selling, general and administrative expenses	(139,013)	(139,837)	(133,169)	+4%	+5%
Income from operations	37,281	37,699	31,820	+17%	+18%
(in % of revenues)	14.3%	14.4%	13.4%	+0.9 points	+1.0 point
Income before tax	36,518	36,935	31,116	+17%	+19%
Income tax	(9,856)	na	(7,738)	+27%	na
Net income	26,662	na	23,377	+14%	na

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

5.1. Q4 2016

Revenues by geographic region

(in thousands of euros)	Three Months Ended December 31 2016 Actual	2016 %	2016 At 2015 exchange rates	2015 Actual	2015 %	Changes 2016/2015 Actual	Changes 2016/2015 Like-for-like
Europe, of which:	27,865	40%	28,143	25,830	42%	+8%	+9%
- France	4,435	6%	4,435	4,421	7%	0%	0%
Americas	18,029	26%	17,630	19,100	31%	-6%	-8%
Asia-Pacific	19,969	29%	19,644	13,890	22%	+44%	+41%
Other countries	3,555	5%	3,532	3,368	5%	+6%	+5%
Total	69,418	100%	68,949	62,188	100%	+12%	+11%

Revenues by product line

(in thousands of euros)	Three Months Ended December 31 2016 Actual	2016 %	2016 At 2015 exchange rates	2015 Actual	2015 %	Changes 2016/2015 Actual	Changes 2016/2015 Like-for-like
Software, of which:	18,600	27%	18,526	17,673	29%	+5%	+5%
- New licenses	6,414	9%	6,348	5,977	10%	+7%	+6%
- Software evolution and online services contracts	12,186	18%	12,178	11,696	19%	+4%	+4%
CAD/CAM equipment	20,245	29%	19,984	16,370	26%	+24%	+22%
Hardware maintenance and online services contracts	9,559	14%	9,536	8,577	14%	+11%	+11%
Consumables and parts	17,150	24%	17,067	15,894	25%	+8%	+7%
Training and consulting services	3,206	5%	3,182	3,051	5%	+5%	+4%
Miscellaneous	658	1%	654	623	1%	+6%	+5%
Total	69,418	100%	68,949	62,188	100%	+12%	+11%

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

(in thousands of euros)	Three Months Ended December 31 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)	30,523	44%	30,169	26,021	42%	+17%	+16%
Recurring revenues (2), of which:	38,895	56%	38,780	36,167	58%	+8%	+7%
- Recurring contracts	21,745	31%	21,713	20,273	32%	+7%	+7%
- Consumables and parts	17,150	25%	17,067	15,894	26%	+8%	+7%
Total	69,418	100%	68,949	62,188	100%	+12%	+11%

(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. Fiscal Year 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:	107,357	41%	108,423	101,420	43%	+6%	+7%
- France	17,655	7%	17,655	16,625	7%	+6%	+6%
Americas	68,914	27%	69,074	65,955	28%	+4%	+5%
Asia-Pacific	68,767	26%	68,478	55,842	23%	+23%	+23%
Other countries	15,123	6%	15,463	14,669	6%	+3%	+5%
Total	260,162	100%	261,438	237,886	100%	+9%	+10%

Twelve Months Ended December 31

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

Twelve Months Ended December 31

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)	113,077	43%	113,066	99,351	42%	+14%	+14%
Recurring revenues (2), of which:	147,085	57%	148,372	138,535	58%	+6%	+7%
- Recurring contracts	83,134	32%	83,803	79,698	33%	+4%	+5%
- Consumables and parts	63,951	25%	64,569	58,837	25%	+9%	+10%
Total	260,162	100%	261,438	237,886	100%	+9%	+10%

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 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	44,834	40%	45,038	47,078	47%	-5%	-4%
Automotive	50,075	44%	49,630	33,485	34%	+50%	+48%
Furniture	11,404	10%	11,639	13,524	14%	-16%	-14%
Other industries	6,764	6%	6,759	5,264	5%	+28%	+28%
Total	113,077	100%	113,066	99,351	100%	+14%	+14%

Twelve Months Ended December 31

6. OPERATING SEGMENTS' INFORMATION

Twelve months ended December 31, 2016 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	107,357	68,914	68,767	15,124	-	260,162
Income (loss) from operations	17,926	9,957	5,191	2,302	1,905	37,281

Twelve months ended December 31, 2015[1] (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	101,420	65,955	55,842	14,669	-	237,886
Income (loss) from operations	15,390	8,548	1,533	2,537	3,812	31,820

(1) The 2015 amounts have been restated in order to account for the change in gross profit margins (see below) and allow for comparison with 2016.

The standard gross profit margins used to determine the performance of operating segments have been changed from January 1, 2016, to take into account the improvement in the overall profitability of the Group. This new allocation of gross profit between marketing regions and the Corporate segment allows for a more relevant analysis of performance by operating segment. The new margins will leave the income from operations for the Corporate segment close to zero over the full year, 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

Twelve months ended December 31, 2016 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	23,794	-	23,794
Proceeds from issuance of ordinary shares[1]	2,354	-	2,354
Sale and purchase of treasury shares[2]	234	-	234
Acquisition cost of activities purchased	(962)	-	(962)
Dividends paid	(9,274)	-	(9,274)
Impact of currency variations – other	203	-	203
Change in cash position for the period	16,349	-	16,349
Cash position at December 31, 2015	59,347	-	59,347
Cash position at December 31, 2016	75,696	-	75,696
Change in cash position for the period	16,349	-	16,349

(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 December 31, 2016, was €23.8 million. This figure results from a combination of €30.5 million in cash flows provided by operating activities (including an increase in working capital requirement of €2.2 million) and capital expenditures of €6.7 million.

The main variations in working capital requirement were:

– +€3.3 million corresponding to the increase in trade accounts receivable, following the sharp rise of revenues (the variation in trade accounts receivable shown in the consolidated statement of cash flows includes 'deferred revenues' in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues);

- +€2.7 million corresponding to the increase in inventories;
- −€2.2 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 fiscal 2016 after deduction from the corporate income tax due by Lectra SA, accounted for but not received, and the balance outstanding relating to the 2012 research tax credit received in Q3 2016 (see note 8 hereafter);
- +€2.2 million corresponding to a decrease in trade accounts payable;
- −€2.6 million arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2015 paid mainly in 2016, and the one accounted for in 2016 and payable in 2017;
- −€1.2 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, 2016, was negative at €1.3 million. It comprised a receivable of €21.6 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 €22.8 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 2016 have been entirely deducted from the corporate income tax due by Lectra SA.

Thus, at December 31, 2016, Lectra SA held a €21.6 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 (€2.6 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 224,715 shares and sold 237,970 shares at an average price of €14.14 and €14.33 respectively under the Liquidity agreement administered by Exane BNP Paribas.

At December 31, 2016, the company held 5,085 Lectra shares (i.e. 0.02% of the share capital) with an average purchase price of €17.96 entirely under the Liquidity agreement.

10. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	December 31, 2016	December 31, 2015
Cash and cash equivalents	75,696	59,347
Borrowings and financial debts	-	-
Net cash	75,696	59,347

After the repayment on March 31, 2015 of €0.4 million, the remainder of public grants to finance R&D programs, which were its sole debt, the Group had no remaining borrowing or financial debt. Thus, cash and cash equivalents were equal to net cash, and amounted to €75.7 million.

11. FOREIGN EXCHANGE RISK

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

In 2016, the average parity between the US dollar and the euro was $1.11/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at December 31, 2016 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of €8.5 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 sensitivity of revenues and income from operations to a change in exchange rates have been based on the December 31, 2016 exchange rates for the currencies in which the Group generates its revenues, notably $1.10/€1.

In view of the estimated share of revenues and costs denominated in US dollars or in currencies correlated with the US dollar, a 5-cent fall in the euro against the US dollar (leading to an annual average exchange rate of $1.05/€1) would mechanically increase 2017 annual revenues by approximately €5 million and annual income from operations by €2.8 million. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. $1.15/€1) would mechanically reduce annual revenues and income from operations by the same amounts.

The parity is \$1.07/€1 at the date of this report.

In addition to fluctuating against the US dollar and currencies strongly correlated with it, the euro also fluctuates against other currencies. These variations are frequently dissimilar both in direction (upward and downward) and in scale.