MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR FIRST-QUARTER 2017

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the first quarter ending March 31, 2017.

Detailed comparisons between 2017 and 2016 are based on 2016 exchange rates ("like-for-like") unless stated otherwise.

To present orders for new systems and revenues from new systems sales in a manner more consistent with the evolution of its product offer, in the framework of its new roadmap for 2017-2019, the Company has decided to present the software for its cutting machines under the same heading as the latter, now titled "CAD/CAM equipment and accompanying software". The software concerned was previously presented under the heading "New software licenses". The other software, which are all liable to migrate, entirely or partly, to recurring subscriptions (SaaS), are now presented under the new heading "New CAD/CAM and PLM software licenses". For consistency between the presentation of revenues from new systems sales and revenues from recurring contracts, contracts concerning software for cutting machines, previously reported under the heading "Software evolution and online services contracts", are now presented under the new heading "CAD/CAM equipment and accompanying software maintenance and online services contracts". Figures for 2016 have been restated accordingly to permit comparisons with those for 2017. The impact of this reclassification is discussed in note 5 to the financial statements.

1. SUMMARY OF OPERATIONS FOR Q1 2017

With an average parity of $1.06/€1 in Q1, the US dollar was up 3% compared to Q1 2016 ($1.10/€1). For its part, the yuan declined by 2%. Currency changes thus mechanically increased revenues by €1.3 million (+2%) and income from operations by €0.7 million (+8%) at actual exchange rates compared with like-for-like figures.

Continuing Strong Growth in Orders for New Systems

Orders for new systems totaled €32.3 million, up €5.7 million (+22%) compared with Q1 2016. Growth was 24% at actual exchange rates.

Orders for new CAD/CAM and PLM software licenses (€4 million) increased by 24%, those for CAD/CAM equipment and accompanying software (€24.6 million) by 22%, and those for training and consulting (€3.2 million) by 25%.

Strong Growth in Income from Operations and Net Income – Exceptionally Strong Free Cash Flow

Revenues totaled €69.5 million, up 10% compared with Q1 2016 (+12% at actual exchange rates).

Income from operations amounted to €9.4 million, up 18% (+28% at actual exchange rates).

The operating margin amounted to 13.5%, increasing by 0.9 percentage points (+1.7 percentage points at actual exchange rates).

Net income amounted to €6.5 million, up €1.4 million (+27%) at actual exchange rates.

Finally, free cash flow amounted to €13.9 million (€3.8 million in Q1 2016). This outstanding performance was primarily due to the very high level of receipts relative to particularly strong revenues for December 2016.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR Q1 2017

Revenues

Revenues totaled €69.5 million, up 10% compared with Q1 2016 (+12% at actual exchange rates).

Revenue distribution by geographical markets and market sectors is reported on an indicative basis in note 5 of the notes to this report. Trends for the fiscal year cannot be extrapolated from their variations over one single quarter.

Revenues from New Systems Sales

Revenues from new systems sales (€31.1 million) increased by 12% and accounted for 45% of total revenues (44% in 2016).

- Revenues from new CAD/CAM and PLM software licenses (€4.1 million) increased by 17% and accounted for 6% of total revenues (5% in 2016);
- Revenues from CAD/CAM equipment and accompanying software (€23.2 million) increased by 11% and accounted for 33% of total revenues (33% in 2016);
- Training and consulting revenues (€3.3 million) increased by 18% and accounted for 5% of total revenues (4% in 2016).

Together, revenues from new software licenses (CAD/CAM, PLM and accompanying software for CAD/CAM equipment) amounted to €6.7 million, up 12%, and represented 10% of total revenues, as in 2016.

Revenues from Recurring Contracts, Consumables and Parts

Recurring revenues (€38.4 million) increased by 7%. They accounted for 55% of total revenues (56% in 2016).

Revenues from recurring contracts—which contributed 57% of recurring revenues and 32% of total revenues—totaled €22 million, a 7% increase:

- Revenues from CAD/CAM and PLM software evolution and online services contracts (€9.5 million), up 4% compared with 2016, represented 14% of total revenues;
- Revenues from CAD/CAM equipment and accompanying software maintenance and online services contracts (€12.5 million), up 10%, contributed 18% of total revenues.

Revenues from consumables and parts (€16.5 million), meanwhile, increased by 8% and represented 23% of total revenues (24% in Q1 2016).

Order Backlog

At March 31, 2017, the order backlog for new systems (€26.6 million) was up €0.7 million at actual exchange rates relative to December 31, 2016; it was up €5 million relative to March 31, 2016.

This backlog comprised orders for new software licenses and CAD/CAM equipment totaling €19.2 million, including €17.1 million for shipment in Q2 2017, and €2.1 million thereafter, and €7.4 million for training and consulting, to be delivered as projects progress.

Gross Profit

Gross profit amounted to €51.1 million.

The overall gross profit margin was 73.5%. Like-for-like, and given changes in the sales mix, it decreased by 0.7 percentage points relative to Q1 2016.

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 €41.7 million, up €2.7 million (+7%) compared with Q1 2016.

The breakdown is as follows:

- €37.1 million in fixed overhead costs (+5%);
- €4.6 million in variable costs (+25%).

Total overhead costs increased by 8% at actual exchange rates.

R&D costs (€6.1 million) are fully expensed in the period and included in overhead costs and represented 8.8% of revenues (€5.7 million and 9.2% in Q1 2016). 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 €4.2 million (€4 million in 2016).

Income from Operations and Net Income

Income from operations was €9.4 million, an increase of €1.3 million (+18%) like-for-like and €2 million (+28%) at actual exchange rates compared with Q1 2016.

The operating margin was 13.5%, up 0.9 percentage points like-for-like and 1.7 percentage points at actual exchange rates.

Financial income and expenses represented a net charge of €0.1 million. Foreign exchange gains and losses generated a net loss of €0.5 million.

After an income tax expense of €2.3 million, net income amounted to €6.5 million, up €1.4 million (+27%) at actual exchange rates.

Net earnings per share were €0.21 on basic capital and €0.20 on diluted capital (respectively €0.17 and €0.16 in Q1 2016).

Free Cash Flow

Free cash flow amounted to €13.9 million, compared with €3.8 million for Q1 2016.

Shareholders' Equity

At March 31, 2017, consolidated shareholders' equity amounted to €139.5 million (€132.6 million at December 31, 2016).

The company is debt free. Cash and cash equivalents, as well as net cash position, totaled €90 million (€75.7 million at December 31, 2016).

Subject to approval by the shareholders at the Annual Meeting of April 28, 2017, shareholders' equity, cash and cash equivalents and net cash will be reduced by payment of the dividend of €11 million (€0.35 per share), to be paid on May 5, declared in respect of FY 2016.

The working capital requirement was a negative €8.8 million. This includes the receivable of €22.2 million on the French tax administration *(Trésor public)* corresponding to the research tax credits recognized since fiscal year 2013 (€21.6 million at December 31, 2016), which have not yet been received or offset against income tax. Restated for this receivable, the working capital requirement was a negative €31 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 balance of the 2012 and 2011 research tax credits were reimbursed to the Company in Q3 2016 and Q3 2015 respectively.

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At March 31, 2017, the share capital totaled €31,349,627, divided into 31,349,627 shares with a par value of €1.00.

Share capital has increased by €102,073 (with a total share premium of €386,297) due to the creation of 102,073 shares since January 1, 2017 resulting from the exercise of stock options.

Main Shareholders

On February 15, 2017, Delta Lloyd Asset Management NV (The Netherlands), acting on behalf of investment funds that it manages, notified the Company that, on February 10, 2017, it had reduced its shareholding below the thresholds of 5% of the Company's capital stock and voting rights, and that it held 4.91% of the capital stock and 4.86% of the voting rights.

No other crossing of statutory thresholds has been notified to the Company since January 1, 2017.

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

- André Harari and Daniel Harari together hold 35.5% of the capital and 35.1% of the voting rights;
- Allianz SE (Germany) through French companies it controls, and Kempen Oranje Participaties (The Netherlands) each hold more than 5% (but less than 10%) of the capital and the voting rights.

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

Treasury Shares

At March 31, 2017, 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 March 31, 2017, was €20.86, up 16% compared with December 31, 2016 (€18.02). It reached a low of €17.95 on January 5 and a high of €22.80 on March 21.

The CAC 40 index and the CAC Mid & Small index progressed by 5% and 8% respectively over the first three months of this year.

According to Euronext statistics, the number of shares traded on Euronext (2.1 million) increased by 81%, and trading volumes (€42.2 million) by 185% compared with Q1 2016. 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 March 29, 2017, 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.

4. SIGNIFICANT POST-CLOSING EVENTS

No significant event has occurred since March 31, 2017.

5. FINANCIAL CALENDAR

The 2016 annual report was published on Lectra's website on March 31. An interactive version, illustrated with video testimonials and other multimedia content is also available on lectra.com.

The annual Shareholders' Meeting will be held on April 28, 2017.

Subject to approval by the shareholders, the dividend in respect of FY 2016 will be paid on May 5.

The first-half 2017 financial results will be published on July 27, after the close of trading on Euronext.

6. BUSINESS TRENDS AND OUTLOOK

In its February 9, 2017 financial report and its 2016 annual report, to which readers are invited to refer, the company reported its long term vision and its 2017 business trends and outlook.

A New Strategic Roadmap for 2017-2019

The new strategic roadmap was framed to enable Lectra to become an indispensable player in Industry 4.0, to consolidate its global leadership and achieve sustained growth, while maintaining short-term profitability and continuing to focus activities on its main market sectors, i.e. fashion and apparel, automotive and furniture.

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. 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.

The first status report on the implementation of the 2017-2019 roadmap will be communicated on February 12, 2018.

2017 Outlook

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

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.

In these conditions, the Company is targeting 6% to 12% revenue growth for 2017, and 7% to 15% growth in income from operations before non-recurring items, like-for-like.

First-quarter business activity and financial results are in line with these objectives.

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

April 27, 2017

Company Certification of the First Quarter 2017

We certify that, to our knowledge, the financial statements have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and results of the company and of its consolidated companies. We further certify that the first quarter report on operations presents a true and sincere view of the significant events that occurred during the first three months of the fiscal year and their impact on the financial statements, and a description of the main risks and uncertainties for the coming nine months.

Paris, April 27, 2017

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	March 31, 2017	December 31, 2016	March 31, 2016
Goodwill	33,265	33,334	32,286
Other intangible assets	3,899	4,179	4,581
Property, plant and equipment	21,881	21,317	19,376
Non-current financial assets	2,351	2,351	2,084
Deferred tax assets	9,562	9,323	8,318
Total non-current assets	70,958	70,504	66,645
Inventories	27,021	25,491	24,703
Trade accounts receivable	50,647	60,076	43,202
Other current assets	33,511	30,695	34,897
Cash and cash equivalents	90,034	75,696	63,414
Total current assets	201,213	191,958	166,216
Total assets	**272,171**	**262,462**	**232,861**

EQUITY AND LIABILITIES

(in thousands of euros)	March 31, 2017	December 31, 2016	March 31, 2016
Share capital	31,350	31,248	30,928
Share premium	11,298	10,912	9,384
Treasury shares	(137)	(91)	(208)
Currency translation adjustments	(8,616)	(8,537)	(8,706)
Retained earnings and net income	105,605	99,052	86,727
Total equity	139,500	132,583	118,125
Retirement benefit obligations	9,100	8,943	8,495
Borrowings, non-current portion	-	-	-
Total non-current liabilities	9,100	8,943	8,495
Trade and other current payables	60,514	59,280	51,500
Deferred revenues	54,215	53,854	48,106
Current income tax liabilities	5,247	4,420	3,721
Borrowings, current portion	-	-	-
Provisions for other liabilities and charges	3,595	3,382	2,914
Total current liabilities	123,571	120,936	106,241
Total equity and liabilities	**272,171**	**262,462**	**232,861**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenues	69,488	62,214
Cost of goods sold	(18,433)	(16,285)
Gross profit	51,055	45,929
Research and development	(4,211)	(3,961)
Selling, general and administrative expenses	(37,483)	(34,629)
Income from operations	9,361	7,339
Financial income	33	57
Financial expenses	(133)	(105)
Foreign exchange income (loss)	(454)	(184)
Income before tax	8,807	7,108
Income tax	(2,312)	(1,978)
Net income	**6,495**	**5,130**

(in euros)		
Earnings per share:		
- basic	0.21	0.17
- diluted	0.20	0.16
Shares used in calculating earnings per share		
- basic	31,270,327	30,801,472
- diluted	32,188,293	31,614,851

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended March 31, 2017	Three months ended March 31, 2016
Net income	6,495	5,130
Currency translation adjustments	(58)	(512)
Tax effect	(22)	-
Other comprehensive income to be reclassified in net income	(79)	(512)
Remeasurement of the net liability arising from defined benefits pension plans	-	-
Tax effect	-	-
Other comprehensive income not to be reclassified in net income	0	0
Total other comprehensive income	(79)	(512)
Comprehensive income	**6,416**	**4,618**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Three months ended March 31, 2017	Three months ended March 31, 2016
I - OPERATING ACTIVITIES		
Net income	6,495	5,130
Net depreciation, amortization and provisions	2,307	1,717
Non-cash operating expenses	430	34
Loss (profit) on sale of fixed assets	11	1
Changes in deferred income taxes	(287)	193
Changes in inventories	(1,739)	(1,634)
Changes in trade accounts receivable	8,980	8,075
Changes in other current assets and liabilities	(586)	(8,882)
Net cash provided by (used in) operating activities	15,611	4,634
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(160)	(184)
Purchases of property, plant and equipment	(1,580)	(678)
Proceeds from sales of intangible assets and property, plant and equipment	4	6
Purchases of financial assets [1]	(795)	(728)
Proceeds from sales of financial assets [1]	819	744
Net cash provided by (used in) investing activities	(1,714)	(839)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	488	507
Purchases of treasury shares	(799)	(674)
Sales of treasury shares	786	712
Net cash provided by (used in) financing activities	475	545
Increase (decrease) in cash and cash equivalents	**14,372**	**4,340**
Cash and cash equivalents at opening	75,696	59,347
Increase (decrease) in cash and cash equivalents	14,372	4,340
Effect of changes in foreign exchange rates	(34)	(273)
Cash and cash equivalents at closing	90,034	63,414
Free cash flow	13,897	3,795
Income tax (paid) / reimbursed, net	(848)	(922)
Interest (paid)	-	-

(1) 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, 2016	30,786,399	1.00	30,786	9,018	(203)	(8,194)	81,547	112,955
Net income							5,130	5,130
Other comprehensive income						(512)	-	(512)
Comprehensive income						(512)	5,130	4,618
Exercised stock options	141,785	1.00	142	365				507
Fair value of stock options							22	22
Sale (purchase) of treasury shares					(5)			(5)
Profit (loss) on treasury shares							29	29
Balance at March 31, 2016	30,928,184	1.00	30,928	9,384	(208)	(8,706)	86,727	118,125
Balance at January 1, 2016	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
Dividend paid							(9,274)	(9,274)
Balance at December 31, 2016	31,247,554	1.00	31,248	10,912	(91)	(8,537)	99,052	132,583
Net income							6,495	6,495
Other comprehensive income						(79)	-	(79)
Comprehensive income						(79)	6,495	6,416
Exercised stock options	102,073	1.00	102	386				488
Fair value of stock options							37	37
Sale (purchase) of treasury shares					(46)			(46)
Profit (loss) on treasury shares							21	21
Balance at March 31, 2017	**31,349,627**	**1.00**	**31,350**	**11,298**	**(137)**	**(8,616)**	**105,605**	**139,500**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT MARCH 31, 2017

1. BUSINESS ACTIVITY

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

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

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

Worldwide Presence

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

Customers

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

Products and Services

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

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

People

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

Lectra is geographically close to its customers wherever they are, with more than 850 global employees are committed to marketing, sales and services, and nearly 280 engineers entirely dedicated to R&D, while more than 150 employees work in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Call Centers

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

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

Business Model

Lectra's business model is based on three pillars:

- a balance of risks, which benefit from natural hedging by the distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and by the very large number of customers throughout the world;
- a balanced revenue mix between revenues from new systems sales, the company's growth driver, and revenues from recurring contracts and consumables and parts, a key factor in the company's stability, that provide a cushion in periods of difficult economic conditions;
- the generation of significant annual free cash flow.

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 condensed consolidated financial statements at March 31, 2017, have been 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 2016, 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 2016 annual consolidated financial statements. They have been prepared under the responsibility of the Board of Directors at its meeting of April 27, 2017. Financial statements at March 31, 2017 and 2016 have not been reviewed by the Statutory Auditors.

The standards and interpretations adopted by the European Union whose application is required for fiscal years starting from January 1, 2017 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, 2017, or that have not been adopted by the European Union. It is currently evaluating the impacts of the adoption of IFRS 15 – *Revenue from Contracts with Customers*, and IFRS 9 – *Financial Instruments*, which will 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 2017 figures restated at 2016 exchange rates, in comparison with actual data for 2016.

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 March 31, 2017, the Group's scope of consolidation comprised the parent company, Lectra SA, together with 29 fully-consolidated companies.

There was no change in the scope of consolidation during the first quarter of 2017.

In September 2016, the Group had 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.

The company had also established in June 2016 a new subsidiary in Vietnam, Lectra Vietnam, which has been fully consolidated since June 30, 2016 in the Group's financial statements. 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.

Four sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At March 31, 2017, their combined revenues totaled €0.3 million, and their combined assets in their statement of financial position totaled €2.5 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 March 31, 2017.

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

	Three Months Ended March 31				
	2017		2016	Changes 2017/2016	
(in thousands of euros)	Actual	At 2016 exchange rates	Actual	Actual	Like-for-like
Revenues	69,488	68,204	62,214	+12%	+10%
Cost of goods sold	(18,433)	(18,314)	(16,285)	+13%	+12%
Gross profit	51,055	49,890	45,929	+11%	+9%
(in % of revenues)	73.5%	73.1%	73.8%	-0.3 points	-0.7 points
Research and development	(4,211)	(4,211)	(3,961)	+6%	+6%
Selling, general and administrative expenses	(37,483)	(37,029)	(34,629)	+8%	+7%
Income from operations	9,361	8,650	7,339	+28%	+18%
(in % of revenues)	13.5%	12.7%	11.8%	+1.7 points	+0.9 points
Income before tax	8,807	8,095	7,108	+24%	+14%
Income tax	(2,312)	na	(1,978)	+17%	na
Net income	6,495	na	5,130	+27%	na

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

Revenues by region

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 Like-for-like
Europe, of which:	28,646	41%	28,753	26,698	43%	+7%	+8%
- France	4,732	7%	4,733	4,541	7%	+4%	+4%
Americas	17,222	25%	16,324	18,002	29%	-4%	-9%
Asia-Pacific	19,278	28%	18,935	13,549	22%	+42%	+40%
Other countries	4,342	6%	4,192	3,965	6%	+10%	+6%
Total	69,488	100%	68,204	62,214	100%	+12%	+10%

Three Months Ended March 31

Revenues by type of business

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 Like-for-like
New CAD/CAM and PLM software licenses (1)	4,097	6%	4,011	3,418	5%	+20%	+17%
CAD/CAM and PLM software evolution and online services contracts (2)	9,512	14%	9,380	9,043	15%	+5%	+4%
CAD/CAM equipment and accompanying software (1)	23,165	33%	22,824	20,511	33%	+13%	+11%
CAD/CAM equipment and accompanying software maintenance and online services contracts (2)	12,460	18%	12,213	11,082	18%	+12%	+10%
Consumables and parts	16,463	23%	16,048	14,904	24%	+10%	+8%
Training and consulting services	3,262	5%	3,208	2,713	4%	+20%	+18%
Miscellaneous	529	1%	520	543	1%	-3%	-4%
Total	69,488	100%	68,204	62,214	100%	+12%	+10%

Three Months Ended March 31

(1) Accompanying software for CAD/CAM equipment, which appeared in 2016 under the 'New software licenses' heading, now appear under 'CAD/CAM equipment and accompanying software'. The 2016 amount (€2,499,000) has been restated accordingly to allow for comparison with 2017 data.

(2) Evolution and online services contracts related to CAD/CAM equipment accompanying software, which appeared in 2016 under the 'Software evolution and online services contracts' heading, now appear under 'CAD/CAM equipment and accompanying software maintenance and online services contracts'. The 2016 amount (€2,615,000) has been restated accordingly to allow for comparison with 2017 data.

Revenues by nature

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 Like-for-like
Revenues from new systems sales (1)	31,053	45%	30,563	27,185	44%	+14%	+12%
Recurring revenues (2), of which:	38,435	55%	37,641	35,029	56%	+10%	+7%
- Recurring contracts	21,972	32%	21,593	20,125	32%	+9%	+7%
- Consumables and parts	16,463	23%	16,048	14,904	24%	+10%	+8%
Total	69,488	100%	68,204	62,214	100%	+12%	+10%

Three Months Ended March 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: CAD/CAM and PLM software evolution and online services contracts, and CAD/CAM equipment and accompanying software maintenance and online services contracts, which are renewable annually;*
- *Revenues from sales of consumables and parts, which are statistically recurrent.*

Breakdown of revenues from new systems sales by market sector

	Three Months Ended March 31						
	2017			2016		Changes 2017/2016	
(in thousands of euros)	Actual	%	At 2016 exchange rates	Actual	%	Actual	Like-for-like
Fashion and apparel	12,609	41%	12,239	12,022	44%	+5%	+2%
Automotive	13,707	44%	13,595	11,468	42%	+20%	+19%
Furniture	3,302	10%	3,314	2,322	9%	+42%	+43%
Other industries	1,435	5%	1,415	1,373	5%	+5%	+3%
Total	31,053	100%	30,563	27,185	100%	+14%	+12%

6. OPERATING SEGMENTS INFORMATION

Three months ended March 31, 2017 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	28,646	17,222	19,278	4,342	-	69,488
Income (loss) from operations	4,807	2,537	1,639	702	(324)	9,361

Three months ended March 31, 2016 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	26,698	18,002	13,549	3,965	-	62,214
Income (loss) from operations	4,244	2,710	378	573	(566)	7,339

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

Three months ended March 31, 2017 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	13,897	-	13,897
Proceeds from issuance of ordinary shares(1)	488	-	488
Sale and purchase of treasury shares(2)	(13)	-	(13)
Impact of currency variations – other	(34)	-	(34)
Change in cash position for the period	14,338	-	14,338
Cash position at December 31, 2016	75,696	-	75,696
Cash position at March 31, 2017	90,034	-	90,034
Change in cash position for the period	14,338	-	14,338

(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 March 31, 2017, was €13.9 million. This figure results from a combination of €15.6 million in cash flows provided by operating activities (including a decrease in working capital requirement of €6.7 million) and capital expenditures of €1.7 million.

The main variations in working capital requirement were:

– −€9 million corresponding to the decrease in trade accounts receivable, following the very high level of receipts relative to particularly strong revenues for December 2016, as well as the cash receipt of a significant portion of the recurring contracts at the beginning of the year, usually yearly in advance (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);

– +€1.7 million corresponding to the increase in inventories;
– +€0.6 million arising from the increase of the receivable on the French tax administration (*Trésor public*) corresponding to the research tax credit for the first quarter of 2017, accounted for but not received, after deduction from the corporate income tax due by Lectra SA for the same period (see note 8 hereafter);
– +€4 million arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2016 paid mainly in 2017, and the one recognized during the first quarter of 2017 and payable in 2018;
– −€2.2 million corresponding to the increase of customer down payments in the statement of financial position, given the high volume of orders booked during the first quarter of 2017;
– −€1.6 million corresponding to an increase in trade accounts payable;
– −€0.2 million arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at March 31, 2017, was negative at €8.8 million. It comprised the receivable of €22.2 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. Restated for this receivable, the working capital requirement was negative at €31 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 research tax credit (€1.8 million) and the competitiveness and employment tax credit (€0.2 million) for the first quarter of 2017 were accounted for but not received.

The competitiveness and employment tax credits relating to the first quarter of 2017 and previous years have been entirely deducted from the corporate income tax due by Lectra SA.

Thus, at March 31, 2017, Lectra SA held a €22.2 million receivable on the French tax administration. This solely 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 2017 (€0.6 million), 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, it 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), 2020 (in respect of the 2016 tax credit) and 2021 (in respect of the 2017 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, 2017, the company has purchased 43,690 shares and sold 41,808 shares at an average price of €18.29 and €18.79 respectively under the liquidity agreement administered by Exane BNP Paribas.

At March 31, 2017, the company held 6,967 Lectra shares (i.e. 0.02% of the share capital) with an average purchase price of €19.61 entirely under the liquidity agreement.

10. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	March 31, 2017	December 31, 2016
Cash and cash equivalents	90,034	75,696
Borrowings and financial debts	-	-
Net cash	90,034	75,696

The Group has no borrowings or financial debts. Thus, net cash was equal to cash and cash equivalents.

11. FOREIGN EXCHANGE RISK

The Group's currency risk management policy is unchanged relative to December 31, 2016.

During Q1 2017, the average parity between the US dollar and the euro was $1.06/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at March 31, 2017 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of €5.3 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 $1.09/€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.