LECTRA

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR FIRST-QUARTER 2018

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the first quarter ending March 31, 2018.

Detailed comparisons between 2018 and 2017 are based on 2017 exchange rates ("like-for-like") unless otherwise stated.

The Company has begun selling some of its software solutions on a subscription basis, using the Software-as-a-Service (SaaS) model. In parallel, these new software offers, set to ramp-up progressively starting in 2018, will be sold only in SaaS mode. To provide better comparability with prior years, the Company has decided to report subscription software sales within the amount of orders, by multiplying the annual value of the corresponding contracts by 2.2. This coefficient enables to calculate the amount an order would represent, had it been sold as a perpetual license, together with an evolution contract. The orders for CAD/CAM and PLM software indicated in this report thus include sales in the form of perpetual licenses and sales on a subscription basis.

Furthermore, to facilitate analysis of expenditures related to the execution of the 2017-2019 roadmap, one key objective of which is the development of an Industry 4.0 offer, the Company has decided to broaden the scope of R&D costs to encompass the increasingly diverse teams involved in the design and development of the offer. The 2017 figures have been restated accordingly to allow a comparison with 2018 figures (see note 4 of the notes to this report).

1. SUMMARY OF OPERATIONS FOR Q1 2018

Negative impact of euro appreciation

With an average parity of $1.23/€1 in Q1, the euro strengthened by 15% against the US dollar compared to Q1 2017 ($1.06/€1). It also strengthened by 7% against the yuan.

The strong appreciation of the euro against most currencies had a major negative mechanical impact on the first-quarter results.

The exchange-rate impact was all the more pronounced as in Q1 2017 the euro reached its lowest level against the US dollar ($1.04/€1) since 2003, as well as against many other currencies. The euro then began to gradually appreciate in Q2 2017.

Thus, if the average currency rates in Q1 2018 were to remain in effect through to the end of the year, the impact of the euro appreciation in comparison with the corresponding prior-year figures would diminish each quarter.

Lower than expected orders for new systems

The macroeconomic environment suddenly worsened in Q1 against the backdrop of tensions between the United States and its trading partners including Europe, China, Mexico and Russia. These tensions have raised concern among many companies, particularly in the automotive industry, prompting them to delay their investment decisions.

In these circumstances, Q1 orders for new systems (€28.2 million) were 7% lower than in Q1 2017 like-for-like and 13% lower at actual exchange rates.

This decline is entirely due to the automotive market (-54%), as customers postponed many orders expected in Q1. Fashion orders were up 31%, and furniture orders rose by 61%.

Orders for new CAD/CAM and PLM software licenses (€3.8 million) and for training and consulting (€3 million) were stable; those for CAD/CAM equipment and accompanying software (€20.7 million) decreased by 10%.

Q1 orders for software-as-a-service correspond to an annual subscription amount of €0.1 million.

Growth in revenues and income from operations, on a like-for-like basis

Revenues totaled €67.2 million, up 3% compared to Q1 2017, but down 3% at actual exchange rates.

Income from operations amounted to €7.2 million, up 5% like-for-like, but down 23% at actual exchange rates. The operating margin was 10.7%, up 0.2 percentage points like-for-like, but down 2.8 percentage points at actual exchange rates.

Thus, the impact of currency changes reduced revenues by €4.5 million (-6%) and income from operations by €2.6 million (-27%) at actual exchange rates, compared to like-for-like figures.

Net income amounted to €5.4 million, down €1.1 million (-17%) at actual exchange rates.

Finally, free cash flow amounted to €2.5 million (€13.9 million in Q1 2017).

The slowdown in orders thus resulted in revenues, free cash flow, and financial results lower than the Company had expected.

Acquisition of Kubix Lab

On January 25, 2018, Lectra announced the acquisition of the Italian company Kubix Lab.

Founded at the end of 2015, Kubix Lab has developed a cutting-edge technological offer called Link. This offer enables fashion brands to manage, from end to end, all product information deriving notably from multiple IT systems (ERP, PDM, PLM…), within a single application.

The founders of Kubix Lab will be in charge of developing an integrated Lectra – Link offer, which will complement and reinforce Lectra's entire offer.

The transaction involves the entire acquisition of Kubix Lab for the maximum amount of €7.1 million: a fixed part of €3.1 million, a variable part of €1.3 million and €2.7 million to be paid respectively 18 and 36 months after the acquisition date, providing objectives are met.

The entire €7.1 million amount was disbursed in Q1. The variable part (€4 million) was paid into an escrow account.

Kubix Lab has been consolidated into Lectra's financial statements since January 26, 2018; the acquisition will have no significant impact on Lectra's 2018 financial results.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR Q1 2018

Revenues

Revenues totaled €67.2 million, up 3% like-for-like and down 3% 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 (€28.9 million) were stable. They accounted for 43% of total revenues (45% in 2017):

- Revenues from new CAD/CAM and PLM software licenses (€3.7 million) decreased by 5% and accounted for 6% of total revenues (6% in 2017);
- Revenues from CAD/CAM equipment and accompanying software (€21.4 million) were stable and accounted for 32% of total revenues (33% in 2017);
- Training and consulting revenues (€3.2 million) increased by 4% and accounted for 5% of total revenues (5% in 2017).

Revenues from recurring contracts, consumables and parts

Recurring revenues (€38.3 million) increased by 6%. They accounted for 57% of total revenues (55% in 2017).

Revenues from recurring contracts—which represented 58% of recurring revenues and 33% of total revenues—totaled €22.2 million, a 7% increase:

- Revenues from CAD/CAM and PLM software evolution, online services and subscription contracts (€9.4 million), up 4% compared to 2017, represented 14% of total revenues;
- Revenues from CAD/CAM equipment and accompanying software maintenance and online services contracts (€12.8 million), up 10%, represented 19% of total revenues.

In parallel, revenues from consumables and parts (€16.1 million) increased by 4% and represented 24% of total revenues (23% in Q1 2017).

Order backlog

At March 31, 2018, the order backlog for new systems (€23.9 million) decreased by €0.8 million relative to December 31, 2017 like-for-like and by €0.9 million at actual exchange rates. Compared with March 31, 2017, it decreased by €1.3 million like-for-like and by €2.7 million at actual exchange rates.

This backlog comprised €17.7 million in orders for new software licenses and CAD/CAM equipment, including €13.1 million for shipment in Q2, and €4.5 million thereafter, and €6.2 million for training and consulting, to be delivered as projects progress.

Gross profit

Gross profit amounted to €48 million, up €1 million compared to 2017.

The overall gross profit margin was 71.4%, down 0.9 percentage points relative to 2017 (-2.1 percentage points at actual exchange rates), essentially due to the evolution of the product 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 €40.8 million, up 1% compared to 2017.

The breakdown is as follows:

- €37 million in fixed overhead costs (+3%);
- €3.8 million in variable costs (-11%).

At actual exchange rates, total overhead costs decreased by 2%.

Research and development costs (€8.2 million) are fully expensed in the period, included in fixed overhead costs and represented 12.2% of revenues (€7.1 million and 10.3% for 2017). After deducting the research tax credit and the corresponding portion of the competitiveness and employment tax credit applicable in France, net research and development costs amounted to €6 million (€5.2 million in 2017).

Income from operations and net income

Income from operations was €7.2 million, an increase of €0.5 million (+5%) like-for-like and a decrease of €2.2 million (-23%) at actual exchange rates compared to 2017.

The operating margin was 10.7%, up 0.2 percentage points like-for-like, but down 2.8 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 €0.2 million.

After an income tax expense of €1.5 million, net income amounted to €5.4 million, down €1.1 million (-17%) at actual exchange rates.

Net earnings per share were €0.17 on basic capital and on diluted capital (respectively €0.21 and €0.20 in Q1 2017).

Free cash flow

Free cash flow amounted to €2.5 million, compared with €13.9 million for Q1 2017.

The particularly high level of free cash flow for Q1 2017 resulted from a temporary €6.7 million reduction in working capital requirement; Q1 2018 free cash flow was negatively impacted by lower downpayments received on orders for new systems and by a temporary €3.1 million increase in working capital requirement.

Shareholders’ equity

At March 31, 2018, consolidated shareholders’ equity amounted to €156.7 million (€151.2 million at December 31, 2017).

The Company is debt-free. Cash and cash equivalents, as well as net cash position, totaled €93.6 million (€98.1 million at December 31, 2017), after the disbursement of €7.1 million for the acquisition of Kubix Lab.

Subject to approval by the Shareholders’ Meeting of April 27, 2018, shareholders’ equity, cash and cash equivalents and net cash will be reduced by the dividend amount (€12 million, that being €0.38 per share), to be paid on May 4, declared in respect of FY 2017.

The working capital requirement was a negative €2.5 million. This includes a receivable of €22 million on the French tax administration (*Trésor public*) corresponding to the research tax credits and the competitiveness and employment tax credit recognized since fiscal year 2014 (€19.7 million at December 31, 2017), which have not yet been received or offset against income tax. Restated for this receivable, the working capital requirement was a negative €24.5 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 reimbursed to the Company in the fourth year (see note 8 of the notes to this report).

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in share capital

At March 31, 2018, the share capital totaled €31,645,804, divided into 31,645,804 shares with a par value of €1.00.

Share capital increased by €74,708 (with a total share premium of €364,336) due to the creation of 74,708 shares since January 1, 2018, resulting from the exercise of stock options.

Main shareholders

No crossing of statutory thresholds was reported to the Company since January 1, 2018.

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

- Daniel Harari holds 17.4% of the capital and 17.3% of the voting rights;
- Kabouter Management LLC (United States) acting on behalf of investment funds that it manages, holds more than 10% (but less than 15%) of the capital and 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, 2018, the Company held 0.07% of its own shares in treasury, 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, 2018, was €22.95, down 9% compared to December 31, 2017 (€25.15). In Q1, it reached a low of €21.05 on February 14 and a high of €26.30 on January 8.

The CAC 40 index and the CAC Mid & Small index decreased by 3% over the first three months of 2018.

According to Euronext statistics, the number of shares traded on Euronext (1.5 million) decreased by 28%, and trading volumes (€35.8 million) by 15% compared with Q1 2017. 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 27, 2018, 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, 2018.

5. FINANCIAL CALENDAR

The 2017 Financial report was published on Lectra's website on March 28 and the Annual report on April 3.

The Annual Shareholders' Meeting will be held on April 27, 2018.

The first-half 2018 financial results will be published on July 25, after the close of trading on Euronext.

6. BUSINESS TRENDS AND OUTLOOK

In its February 12, 2018 Financial report and its 2017 Annual report, to which readers are invited to refer, the Company reported its long term vision and its 2018 business trends and outlook.

2018 outlook

The Company entered 2018 with stronger than ever operating fundamentals and an even stronger balance sheet.

The Company is targeting, for 2018, 6% to 10% revenue growth, like-for-like, and 7% to 15% growth in income from operations before non-recurring items, like-for-like.

At this point in time, these objectives need not be revised. However, the main uncertainty concerns the level of orders for new systems and corresponding revenues, in light of persistent uncertainty in the macroeconomic, geopolitical and monetary environment that could continue to affect business investment decisions in the automotive sector.

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 26, 2018

Company Certification of the First Quarter 2018 Report

We certify that, to our knowledge, the financial statements have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and financial 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 26, 2018

Daniel Harari
Chairman and Chief Executive Officer

Olivier du Chesnay
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	March 31, 2018	December 31, 2017	March 31, 2017
Goodwill	38,858	32,105	33,265
Other intangible assets	3,403	3,402	3,899
Property, plant and equipment	25,098	24,444	21,881
Non-current financial assets	2,296	2,566	2,351
Deferred tax assets	9,423	9,266	9,562
Total non-current assets	79,078	71,783	70,958
Inventories	33,972	31,133	27,021
Trade accounts receivable	50,752	55,065	50,647
Other current assets	32,097	28,719	33,511
Cash and cash equivalents	93,565	98,134	90,034
Total current assets	210,386	213,051	201,213
Total assets	**289,464**	**284,834**	**272,171**

EQUITY AND LIABILITIES

(in thousands of euros)	March 31, 2018	December 31, 2017	March 31, 2017
Share capital	31,646	31,571	31,350
Share premium	12,635	12,270	11,298
Treasury shares	(516)	(298)	(137)
Currency translation adjustments	(10,060)	(9,872)	(8,616)
Retained earnings and net income	123,037	117,538	105,605
Total equity	156,741	151,209	139,500
Retirement benefit obligations	9,681	9,518	9,100
Borrowings, non-current portion	-	-	-
Total non-current liabilities	9,681	9,518	9,100
Trade and other current payables	58,793	62,399	60,514
Deferred revenues	54,477	53,013	54,215
Current income tax liabilities	6,074	4,965	5,247
Borrowings, current portion	-	-	-
Provisions for other liabilities and charges	3,698	3,730	3,595
Total current liabilities	123,042	124,107	123,571
Total equity and liabilities	**289,464**	**284,834**	**272,171**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended March 31, 2018	Three months ended March 31, 2017
Revenues	67,198	69,488
Cost of goods sold	(19,216)	(18,433)
Gross profit	47,983	51,055
Research and development[(1)]	(5,967)	(5,232)
Selling, general and administrative expenses [(1)]	(34,840)	(36,462)
Income from operations	7,176	9,361
Financial income	21	33
Financial expenses	(103)	(133)
Foreign exchange income (loss)	(229)	(454)
Income before tax	6,865	8,807
Income tax	(1,467)	(2,312)
Net income	**5,399**	**6,495**

(in euros)		
Earnings per share:		
- basic	0.17	0.21
- diluted	0.17	0.20
Shares used in calculating earnings per share		
- basic	31,587,792	31,270,327
- diluted	32,363,230	32,188,293

(1) *In 2018, the scope of R&D teams was reviewed to encompass the teams involved in the design and development of Lectra's offer. The 2017 amounts have been restated to allow for comparison with 2018: 'Research and development' expenses published in 2017 amounted to €4,211,000 and 'Selling, general and administrative expenses' to €37,483,000.*

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended March 31, 2018	Three months ended March 31, 2017
Net income	5,399	6,495
Currency translation adjustments	(148)	(58)
Tax effect	(40)	(22)
Other comprehensive income to be reclassified in net income	(188)	(79)
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	(188)	(79)
Comprehensive income	**5,211**	**6,416**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Three months ended March 31, 2018	Three months ended March 31, 2017
I - OPERATING ACTIVITIES		
Net income	5,399	6,495
Net depreciation, amortization and provisions	1,824	2,307
Non-cash operating expenses	350	430
Loss (profit) on sale of fixed assets	(3)	11
Changes in deferred income taxes	(249)	(287)
Changes in inventories	(3,221)	(1,739)
Changes in trade accounts receivable	6,127	8,980
Changes in other current assets and liabilities	(5,999)	(586)
Net cash provided by (used in) operating activities	4,228	15,611
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(380)	(160)
Purchases of property, plant and equipment	(1,555)	(1,580)
Proceeds from sales of intangible assets and property, plant and equipment	5	4
Acquisition cost of companies purchased (1)	(7,102)	-
Purchases of financial assets (2)	(1,354)	(795)
Proceeds from sales of financial assets (2)	1,576	819
Net cash provided by (used in) investing activities	(8,810)	(1,714)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	439	488
Purchases of treasury shares	(1,573)	(799)
Sales of treasury shares	1,350	786
Net cash provided by (used in) financing activities	216	475
Increase (decrease) in cash and cash equivalents	**(4,366)**	**14,372**
Cash and cash equivalents at opening	98,134	75,696
Increase (decrease) in cash and cash equivalents	(4,366)	14,372
Effect of changes in foreign exchange rates	(203)	(34)
Cash and cash equivalents at closing	93,565	90,034
Free cash flow	2,520	13,897
Income tax (paid) / reimbursed, net	(433)	(848)
Interest (paid)	-	-

(1) At March 31, 2018, this amount corresponds to the acquisition cost of Kubix Lab (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, 2017	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
Balance at January 1, 2017	31,247,554	1.00	31,248	10,912	(91)	(8,537)	99,052	132,583
Net income							29,264	29,264
Other comprehensive income						(1,335)	(121)	(1,456)
Comprehensive income						(1,335)	29,143	27,808
Exercised stock options	323,542	1.00	324	1,358				1,682
Fair value of stock options							296	296
Sale (purchase) of treasury shares					(207)			(207)
Profit (loss) on treasury shares							25	25
Dividend paid							(10,977)	(10,977)
Balance at December 31, 2017	31,571,096	1.00	31,571	12,270	(298)	(9,872)	117,538	151,209
Net income							5,399	5,399
Other comprehensive income						(188)	-	(188)
Comprehensive income						(188)	5,399	5,211
Exercised stock options	74,708	1.00	75	364				439
Fair value of stock options							102	102
Sale (purchase) of treasury shares					(218)			(218)
Profit (loss) on treasury shares							(3)	(3)
Balance at March 31, 2018	**31,645,804**	**1.00**	**31,646**	**12,635**	**(516)**	**(10,060)**	**123,037**	**156,741**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT MARCH 31, 2018

1. BUSINESS ACTIVITY

A French high technology company, Lectra has developed privileged and long-term relationships with its customers in over 100 countries. They all have operational excellence in common and the soft materials they use – fabrics and leather, but also technical textile and composite materials – to manufacture their products (garments, shoes and luggage, car seats and interiors, airbags, sofas…).

In order to increase customers' competitiveness, Lectra creates premium technologies specifically for its customers' markets – mainly fashion, automotive and furniture. Lectra's solutions, combining software, automated cutting equipment and associated services, enable customers to automate and optimize product design, development and manufacturing, and to digitalize their processes.

Lectra's offer supports customers to achieve their strategic objectives: to boost productivity; to reduce cutting costs; to reduce time-to-market; to meet the challenges of globalization; to enhance product quality; to increase production capacity; and to develop their brands. In addition, customers now face challenges specific to Industry 4.0, such as securing digital communications along an extended supply chain, and making the factory more agile.

Established in 1973, Lectra has been listed on Euronext since 1987.

Business model

Lectra's business model is based on three pillars:

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

Worldwide presence

Since the mid-1980s Lectra, with headquarters located in France, has established its global footprint. The Group supports customers through its unrivalled network of 32 sales and services' subsidiaries, from which Lectra generates over 90% of revenues.

Lectra also has an International Advanced Technology & Conference Center in Bordeaux-Cestas (France) where the company welcomes customers from all over the world, and five international Call Centers, based in Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) and Shanghai (China).

Customers

From global corporations to smaller national companies, Lectra's customers are, for the most part, fashion and apparel brands, manufacturers and retailers, automotive equipment manufacturers and subcontractors, and furniture brands and manufacturers.

Products and services

The Group markets end-to-end integrated technology solutions: software, automated cutting equipment services. The distinctive feature of Lectra's offer is to integrate business expertise with the best industrial practices for each market sector. All Lectra software and equipment, including electronics, are designed and developed in-house.

Equipment is assembled from parts produced by a network of subcontractors and tested in the company's industrial facilities in Bordeaux-Cestas (France). Since 2007, cutting machines on the market incorporate hundreds of sensors which connect them to Lectra's Call Centers, enabling preventive and predictive maintenance.

The services include technical maintenance, support, training, consulting, as well as the sale of consumables and parts.

People

Lectra's strength lies in the skills and experience of the Group's global 1,700 employees: nearly 850 in France and 850 in the sales and services subsidiaries. Thanks to Lectra's global presence the Group is geographically close to its customers, wherever they are in the world.

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, 2018, 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 2017, available on lectra.com.

The consolidated financial statements at March 31, 2018 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2017 financial statements, with the exception of the two standards presented below. They have been prepared under the responsibility of the Board of Directors at its meeting of April 26, 2018. Financial statements at March 31, 2018 and 2017 have not been reviewed by the Statutory Auditors.

The Group has not early adopted any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2018, or that have not been adopted by the European Union. The Group is studying IFRS 16 – *Leases*, which will be applicable from January 1, 2019.

Implementation of IFRS 15 – *Revenue from contracts with customers*

The Group has adopted, as from January 1, 2018, the new standard IFRS 15 – *Revenue from contracts with customers*.

Under the model established by the standard, in five steps, the Group's main analysis focused on identifying the performance obligations that its multiple-element contracts comprised and the allocation of the transaction price according to the stand-alone selling price of each of the performance obligations.

New systems sales amounted to €123.1 million in 2017. Contracts with customers comprise multiple performance obligations such as: CAD/CAM equipment, CAD/CAM and PLM software, training and consulting, installation, maintenance, evolution and online services contracts for equipment and software. Software sales are only recognized separately when the customer can benefit from the software independently from the other goods and services promised in the contract; in particular, the software accompanying CAD/CAM equipment are not recognized separately from these. The company has determined stand-alone selling prices of the multiple elements by using observable data as much as possible. For elements which are not sold separately on a customary basis, stand-alone selling prices have been estimated based on the company's pricing policy, reflecting expected costs plus an appropriate margin. Allocating the transaction prices based on stand-alone selling prices leads to non-significant differences with the current accounting practices.

The Group does not incur incremental costs to obtain a contract with its customers, which should be recognized as assets. The other analysis axes recommended by the standard (in particular: warranties, revenue recognition date for CAD/CAM equipment sales, measurement of completion for evolution, maintenance and on-line services for the solutions sold) have not raised any significant difference with the accounting principles previously applied.

The Group has opted to apply IFRS 15 retrospectively and recognize the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings as of January 1, 2018. This effect being immaterial, no restatement was made.

Thus, implementing IFRS 15 does not change the Group's accounting principles, either on allocating revenue to the contracts' separate elements or on timing differences for revenue recognition.

Implementation of IFRS 9 – *Financial instruments*

The Group has adopted, as from January 1, 2018, the new standard IFRS 9 – *Financial instruments*.

Given the Group's activity, and the financial assets and liabilities on its statement of financial position (almost solely trade accounts receivable and trade and other payables; no financial debt), implementing IFRS 9 had no significant impact.

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 2018 figures restated at 2017 exchange rates, in comparison with actual data for 2017.

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

Contracts with customers comprise multiple performance obligations such as: CAD/CAM equipment, CAD/CAM and PLM software, training and consulting, installation, maintenance, evolution and online services contracts for equipment and software.

Software sales are only recognized separately when the customer can benefit from the software independently from the other goods and services promised in the contract. In particular, the software accompanying CAD/CAM equipment are not recognized separately from these.

The company determines stand-alone selling prices of the multiple elements by using observable data as much as possible. For elements which are not sold separately on a customary basis, stand-alone selling prices are estimated based on the company’s pricing policy, reflecting expected costs plus an appropriate margin.

Revenues from sales of hardware and perpetual software licenses are recognized when the control has been transferred to the purchaser. For hardware, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms. For perpetual software licenses, 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 subscription sales of software are spread over the duration of the customer’s commitment.

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.

In 2018, the scope of R&D teams was reviewed to encompass the teams involved in the design and development of Lectra’s offer.

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, 2018, the Group's scope of consolidation comprised the parent company, Lectra SA, together with 29 fully-consolidated companies.

In January 2018, the Group purchased the Italian company Kubix Lab. Founded at the end of 2015, Kubix Lab develops a cutting-edge technological offer called Link. This offer enables fashion brands to manage, from end-to-end, all product information deriving notably from multiple IT systems within one single application.

The entire acquisition of Kubix Lab was made for an amount of €7.2 million:

- €3 million paid when the acquisition agreement was signed;
- €1.3 million and €2.7 million to be paid respectively 18 and 36 months after the signature, providing objectives are met;
- A price adjustment of €0.2 million relating to previous years' earnings that had not been distributed to the previous shareholders prior to the acquisition.

As the Company believes the probability of objectives being met as high, and as the conditional amounts were already paid out on an escrow account, the acquisition cost for Lectra has been entirely disclosed under the heading 'Acquisition cost for companies purchased' in the statement of cash-flows, net of cash acquired, for an amount of €7.1 million.

Kubix Lab has been fully consolidated since January 26, 2018.

Finally, the purchase price allocation has been made and the main impact on the Group's financial statements is the goodwill recorded for an amount of €7 million.

There was no other change in the scope of consolidation during the first quarter of 2018.

In June 2017, the Group had liquidated its subsidiary Lectra Hellas EPE (Greece), which had had no activity for years. This liquidation had no impact on the statement of financial position, income statement or cash position of the Group.

In October 2017, the Group had also liquidated its subsidiary Lectra Israel Ltd, which was not consolidated (liquidation with no impact on the income statement or cash position of the Group).

Three sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At March 31, 2018, their combined revenues totaled €0.2 million, and their combined assets totaled €2.5 million. They had no financial debt outside of the Group. Most of the sales activity of these subsidiaries is billed directly by Lectra SA.

Transactions with these subsidiaries 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, 2018.

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

(in thousands of euros)	Three Months Ended March 31				
	2018		2017	Changes 2018/2017	
	Actual	At 2017 exchange rates	Actual	Actual	Like-for-like
Revenues	67,198	71,726	69,488	-3%	+3%
Cost of goods sold	(19,216)	(19,642)	(18,433)	+4%	+7%
Gross profit	47,983	52,084	51,055	-6%	+2%
(in % of revenues)	71.4%	72.6%	73.5%	-2.1 points	-0.9 points
Research and development[(1)]	(5,967)	(5,967)	(5,232)	+14%	+14%
Selling, general and administrative expenses[(1)]	(34,840)	(36,298)	(36,462)	-4%	0%
Income from operations	7,176	9,819	9,361	-23%	+5%
(in % of revenues)	10.7%	13.7%	13.5%	-2.8 points	+0.2 points
Income before tax	6,865	9,508	8,807	-22%	+8%
Income tax	(1,467)	na	(2,312)	-37%	na
Net income	5,399	na	6,495	-17%	na
€ / $ average parity	*1.23*	*1.06*	*1.06*		

(1) In 2018, the scope of R&D teams was reviewed to encompass the teams involved in the design and development of Lectra's offer. The 2017 amounts have been restated to allow for comparison with 2018: 'Research and development' expenses published in 2017 amounted to €4,211,000 and 'Selling, general and administrative expenses' to €37,483,000.

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

Revenues by region

(in thousands of euros)	Three Months Ended March 31						
	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	28,358	42%	28,481	28,646	41%	-1%	-1%
- France	4,281	6%	4,276	4,732	7%	-10%	-10%
Americas	16,718	25%	19,285	17,222	25%	-3%	+12%
Asia-Pacific	18,119	27%	19,843	19,278	28%	-6%	+3%
Other countries	4,003	6%	4,117	4,342	6%	-8%	-5%
Total	67,198	100%	71,726	69,488	100%	-3%	+3%
€ / $ average parity	*1.23*		*1.06*	*1.06*			

Revenues by type of business

(in thousands of euros)	Three Months Ended March 31						
	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
New CAD/CAM and PLM software licenses	3,723	6%	3,896	4,097	6%	-9%	-5%
CAD/CAM and PLM software evolution and online services contracts	9,440	14%	9,870	9,512	14%	-1%	+4%
CAD/CAM equipment and accompanying software	21,354	32%	23,083	23,165	33%	-8%	0%
CAD/CAM equipment and accompanying software maintenance and online services contracts	12,796	19%	13,693	12,460	18%	+3%	+10%
Consumables and parts	16,072	24%	17,195	16,463	23%	-2%	+4%
Training and consulting services	3,229	5%	3,378	3,262	5%	-1%	+4%
Miscellaneous	583	1%	610	529	1%	+10%	+15%
Total	67,198	100%	71,726	69,488	100%	-3%	+3%
€ / $ average parity	*1.23*		*1.06*	*1.06*			

Revenues by nature

(in thousands of euros)	2018 Actual	%	At 2017 exchange rates	2017 Actual	%	Changes 2018/2017 Actual	Like-for-like
Revenues from new systems sales[1]	28,889	43%	30,968	31,053	45%	-7%	0%
Recurring revenues[2], of which:	38,309	57%	40,758	38,435	55%	0%	+6%
- Recurring contracts	22,237	33%	23,563	21,972	32%	+1%	+7%
- Consumables and parts	16,072	24%	17,195	16,463	23%	-2%	+4%
Total	67,198	100%	71,726	69,488	100%	-3%	+3%
€ / $ average parity	*1.23*		*1.06*	*1.06*			

Three Months Ended March 31

(1) Revenues from sales of new systems comprise sales of new CAD/CAM and PLM software licenses, CAD/CAM equipment and accompanying software, 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

(in thousands of euros)	2018 Actual	%	At 2017 exchange rates	2017 Actual	%	Changes 2018/2017 Actual	Like-for-like
Fashion and apparel	15,725	55%	17,058	12,609	40%	+25%	+35%
Automotive	8,368	29%	8,828	13,707	44%	-39%	-36%
Furniture	4,107	14%	4,340	3,302	11%	+24%	+31%
Other industries	689	2%	741	1,435	5%	-52%	-48%
Total	28,889	100%	30,968	31,053	100%	-7%	0%
€ / $ average parity	*1.23*		*1.06*	*1.06*			

Three Months Ended March 31

6. OPERATING SEGMENTS INFORMATION

Three months ended March 31, 2018 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	28,358	16,718	18,119	4,003	-	67,198
Income (loss) from operations	4,041	2,445	1,095	642	(1,047)	7,176

Three months ended March 31, 2017[1] (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	4,058	1,958	1,241	577	1,527	9,361

(1) The 2017 amounts have been restated in order to account for the change in gross profit margins (see below) and allow for comparison with 2018.

The standard gross profit margins used to determine the performance of operating segments have been changed from January 1, 2018, to take into account the cost structure resulting from the implementation of the Group's 2017 – 2019 roadmap. 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

Three months ended March 31, 2017 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	2,520	-	2,520
Proceeds from issuance of ordinary shares(1)	439	-	439
Sale and purchase of treasury shares(2)	(223)	-	(223)
Acquisition cost of companies purchased(3)	(7,102)	-	(7,102)
Impact of currency variations – other	(203)	-	(203)
Change in cash position for the period	(4,569)	-	(4,569)
Cash position at December 31, 2017	98,134	-	98,134
Cash position at March 31, 2018	93,565	-	93,565
Change in cash position for the period	(4,569)	-	(4,569)

(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).
(3) Acquisition cost of Kubix Lab (see note 3).

Free cash flow at March 31, 2018, was €2.5 million. This figure results from a combination of €4.2 million in cash flows provided by operating activities (including an increase in working capital requirement of €3.1 million) and capital expenditures of €1.7 million.

The main variations in working capital requirement were:

- −€6.1 million corresponding to the decrease in trade accounts receivable following 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);
- +€3.2 million corresponding to the increase in inventories;
- +€2.3 million arising from the increase of the receivable on the French tax administration (*Trésor public*) corresponding to the research tax credit and the competitiveness and employment tax credit for Q1 2018 accounted for but not received, after deduction from the corporate income tax due by Lectra SA (see note 8 hereafter);
- +€6.1 million arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2017 paid mainly in 2018, and the one recognized during Q1 2018 and payable in 2019;
- −€2.4 million arising from the change in trade accounts payable and other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at March 31, 2018 was negative at €2.5 million. It comprised the receivable of €22 million on the French tax administration in respect of the research tax credit and the competitiveness and employment tax credit, which have not been received and have not been deducted from the corporate income tax. Restated for this receivable, the working capital requirement was negative at €24.5 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 (€2.1 million) and the competitiveness and employment tax credit (€0.2 million) for Q1 2018 were accounted for but not received.

Thus, at March 31, 2018, Lectra SA held a €22 million receivable on the French tax administration. This broke down as follows:

- the remaining amount of the research tax credit, after deduction from the corporate income tax due by Lectra SA in the same year: for 2018 (€2.1 million), 2017 (€4.5 million), 2016 (€2.6 million), 2015 (€5.7 million) and 2014 (€6.9 million);
- the remaining amount of the competitiveness and employment tax credit after deduction from the corporate income tax due by Lectra SA for the period (€0.2 million), as the credits relating to prior years have been entirely deducted from the corporate income tax due by Lectra SA in the same periods.

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 2018 (in respect of the 2014 tax credit), 2019 (in respect of the 2015 tax credit), 2020 (in respect of the 2016 tax credit), 2021 (in respect of the 2017 tax credit) and 2022 (in respect of the 2018 tax credits). This situation will last for as long as the amount of the annual tax credits exceeds the amount of income tax payable.

If the income tax expense were to rise above the amounts of tax credits for the year, the company would continue 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, 2018, the company has purchased 68,013 shares and sold 57,638 shares at an average price of €23.13 and €23.43 respectively under the liquidity agreement administered by Exane BNP Paribas.

At March 31, 2018, the company held 22,665 Lectra shares (i.e. 0.07% of the share capital) with an average purchase price of €22.77 entirely under the liquidity agreement.

10. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	March 31, 2018	December 31, 2017
Cash and cash equivalents	93,565	98,134
Borrowings and financial debts	-	-
Net cash	93,565	98,134

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, 2017.

During Q1 2018, the average parity between the US dollar and the euro was $1.23/€1.

Exchange risk hedging instruments

Exchange risk hedging instruments at March 31, 2018 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of €2.1 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 was based on the December 31, 2017 exchange rates for the relevant currencies, in particular $1.20/€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 $1.15/€1) would mechanically increase 2018 annual revenues by approximately €5 million and annual income from operations by €3 million. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. $1.25/€1) would mechanically reduce annual revenues and income from operations by the same amounts.

The parity is $1.22/€1 on 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.