LECTRA

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE SECOND QUARTER AND FIRST HALF 2018

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the second quarter and first half of 2018, ending June 30, 2018. Financial statements for the first half have been subject to a limited review by the Statutory Auditors; statements relating solely to the second quarter have not been reviewed.

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, all new software offers, available since April 2018, are 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 is used to calculate the amount an order would represent had it been sold as a perpetual license together with an evolution contract. 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 Q2 2018

With an average exchange rate of $1.19/€1 in Q2, the euro strengthened by 8% against the US dollar and by 1% against the yuan compared to Q2 2017.

The impact of currency changes reduced revenues by €2.5 million (-3%) and income from operations by €1.2 million (-11%) at actual exchange rates, compared to like-for-like figures.

Q2 was marked by an intensification of the trade wars between the United Sates and other countries, particularly China and Europe. While the impact on the automotive market was less severe than in Q1, as the major players gained a clearer view of the consequences of the measures announced by the various governments, the overall effect has been to prompt a "wait-and-see" attitude across all of Lectra's market sectors.

Strong rebound in orders for new systems

Q2 orders for new systems totaled €33.4 million, up 8% compared to Q2 2017 like-for-like and up 4% at actual exchange rates. Orders for new CAD/CAM and PLM software licenses (€4.4 million) decreased by 2%; those for CAD/CAM equipment and accompanying software (€25.1 million) increased by 9% and those for training and consulting (€3.4 million) rose by 15%. Q2 orders for Software-as-a-Service correspond to an annual subscription amount of €0.4 million.

Orders had totaled €28.2 million in Q1 2018, down 7% compared to Q1 2017.

Strong growth in revenues and income from operations

Revenues totaled €73 million, up 9% compared to Q2 2017 (+6% at actual exchange rates).

Income from operations amounted to €9.8 million, up 21% like-for-like (+8% at actual exchange rates).

The operating margin was 13.5%, up 1.4 percentage points like-for-like and 0.3 percentage points at actual exchange rates.

Net income amounted to €6.9 million, up €0.6 million (+10%) at actual exchange rates.

Finally, free cash flow amounted to €5 million (€2.4 million in Q2 2017).

2. CONSOLIDATED FINANCIAL STATEMENTS FOR FIRST HALF 2018

Negative impact of euro appreciation

With an average exchange rate of $1.21/€1 for H1, the euro strengthened by 12% against the US dollar and by 4% against the yuan compared to H1 2017. The strong appreciation of the euro against most currencies had a major negative mechanical impact on the H1 results. It reduced revenues by €7 million (-5%) and income from operations by €3.9 million (-18%) at actual exchange rates, compared to like-for-like figures.

Orders for new systems

The first half was marked by a ‘wait-and-see’ approach by companies across all of Lectra's market sectors, particularly in automotive, following the protectionist measures announced first by the United States, and subsequently by China and Europe.

Orders for new systems amounted to €61.6 million, a stable level compared with H1 2017: new CAD/CAM and PLM software licenses decreased by 1%, CAD/CAM equipment and accompanying software were stable, and training and consulting increased by 7%. H1 orders for Software-as-a-Service correspond to an annual subscription amount of €0.5 million.

Geographically, the situation is highly contrasted: orders for new systems increased by 63% in the Americas, but decreased by 6% in Europe, 22% in Asia-Pacific and 13% in the rest of the world (including Northern Africa, South Africa, Turkey, and the Middle East).

Orders for new systems were up 9% in the fashion and apparel market, but down 15% in the automotive market and 7% in the furniture market. In the other industries, they increased by 16%. These market sectors respectively accounted for 52%, 33%, 9% and 6% of orders for new systems.

Revenues

Revenues totaled €140.2 million, up 6% like-for-like and 1% at actual exchange rates.

Revenues increased by 27% in the Americas and 3% in Asia-Pacific. They decreased by 2% in Europe and by 4% in the rest of the world. These regions respectively accounted for 28%, 25%, 41% (including 6% for France), and 6% of total revenues.

Revenues from new systems sales

Revenues from new systems sales (€62.1 million) increased by 7%. They accounted for 44% of total revenues, the same percentage as in 2017:

- Revenues from new CAD/CAM and PLM software licenses (€7.8 million) decreased by 7% and accounted for 6% of total revenues (6% in 2017);
- Revenues from CAD/CAM equipment and accompanying software (€46.6 million) increased by 10% and accounted for 33% of total revenues (32% in 2017);
- Training and consulting revenues (€6.6 million) increased by 3% and accounted for 5% of total revenues (5% in 2017).

Revenues from recurring contracts, consumables and parts

Recurring revenues (€78.1 million) increased by 6%. They accounted for 56% of total revenues, as in 2017.

Revenues from recurring contracts—which represented 57% of recurring revenues and 32% of total revenues—totaled €44.7 million, a 6% increase:

- Revenues from CAD/CAM and PLM software evolution, online services and subscription contracts (€18.7 million), up 2% compared to 2017, represented 13% of total revenues;
- Revenues from CAD/CAM equipment and accompanying software maintenance and online services contracts (€25.9 million), up 9%, represented 19% of total revenues.

In parallel, revenues from consumables and parts (€33.5 million) increased by 6% and represented 24% of total revenues (24% in H1 2017).

Order backlog

At June 30, 2018, the order backlog for new systems (€23.6 million) decreased by €1.4 million relative to December 31, 2017 like-for-like and by €1.2 million at actual exchange rates. Compared with June 30, 2017, it decreased by €4.4 million like-for-like and by €4.7 million at actual exchange rates.

This backlog comprised €17.2 million in orders for new software licenses and CAD/CAM equipment, including €13.5 million for shipment in Q3, €1.8 million in Q4, and €1.9 million thereafter, as well as €6.4 million for training and consulting, to be delivered as projects progress.

CAD/CAM and PLM software sold in SaaS mode is not included in the backlog, it only includes the amount for software sold in the form of perpetual licenses that has not yet been invoiced. Therefore, the rising percentage of software sold in SaaS mode automatically entails a reduction in the size of the software order backlog.

Gross profit

Gross profit amounted to €100.4 million, up €4.9 million compared to 2017.

The overall gross profit margin was 71.6%, down 1 percentage point relative to H1 2017 (-1.9 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 €83.4 million, up 3% compared to 2017.

The breakdown is as follows:

- €74.8 million in fixed overhead costs (+3%);
- €8.6 million in variable costs (+3%).

At actual exchange rates, total overhead costs were stable.

Research and development costs (€16.3 million), which are fully expensed in the period and included in fixed overhead costs, represented 11.7% of revenues (€14.5 million and 10.5% for H1 2017). After deducting the research tax credit, the corresponding portion of the competitiveness and employment tax credit applicable in France, and grants received, net research and development costs amounted to €12 million (€10.6 million in 2017).

Income from operations and net income

Income from operations was €17 million, an increase of €2.4 million (+13%) like-for-like and a decrease of €1.4 million (-8%) at actual exchange rates compared to H1 2017.

The operating margin was 12.1%, up 0.9 percentage points like-for-like, but down 1.2 percentage points at actual exchange rates.

Financial income and expenses represented a net charge of €0.2 million. Foreign exchange gains and losses generated a net loss of €0.5 million.

After an income tax expense of €4.1 million, net income amounted to €12.3 million, down €0.5 million (-4%) at actual exchange rates.

Net earnings per share came to €0.39 on basic capital and €0.38 on diluted capital (respectively €0.41 and €0.39 in H1 2017).

Free cash flow

Free cash flow amounted to €7.5 million, compared to €16.3 million for H1 2017.

The difference between these two amounts is attributable primarily to the change in working capital requirement, which fell by €1.5 million in H1 2017, and posted a temporary increase of €4.4 million in H1 2018.

Shareholders' equity

At June 30, 2018, consolidated shareholders' equity amounted to €152.5 million (€151.2 million at December 31, 2017), after payment on May 4 of the dividend of €12 million (€0.38 per share) declared in respect of FY 2017.

The Company is debt-free. Cash and cash equivalents, as well as net cash position, totaled €87 million (€98.1 million at December 31, 2017), after the disbursement of €7.1 million for the acquisition of Kubix Lab and the dividend payment of €12 million.

The working capital requirement was a negative €1.7 million. This includes a receivable of €22.5 million on the French tax administration (*Trésor public*) corresponding to the research tax credits 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 €24.1 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 June 30, 2018, the share capital totaled €31,742,690, divided into 31,742,690 shares with a par value of €1.00.

Share capital increased by €171,594 (with a total share premium of €885,770) due to the creation of 171,594 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% of the capital and 17% 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 June 30, 2018, the Company held 0.13% 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 June 30, 2018, was €19.68, down 22% compared to December 31, 2017 (€25.15). In H1, it reached a low of €19.32 on June 29 and a high of €26.30 on January 8.

Over the first six months of 2018, the CAC 40 index was flat overall, and the CAC Mid & Small index declined by 2%.

On April 23, 2018, Lectra joined the Euronext EnterNext® Tech 40 Index.

10.1 million shares were traded on Euronext and other trading platforms in H1 2018, which is 14% below the level in H1 2017; this comparison does not take into account the disposal by André Harari of his entire stake in Lectra in June 2017. Euronext accounted for 28% of shares traded in H1 2018, compared with 49% a year before.

4. SIGNIFICANT POST-CLOSING EVENTS SINCE JUNE 30, 2018

No significant event has occurred.

5. FINANCIAL CALENDAR

The Q3 2018 financial results will be published on October 30, 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: confirmation of growth objective for income from operations

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

The Company set, for 2018, objectives of 6% to 10% revenue growth, like-for-like, and 7% to 15% growth in income from operations before non-recurring items, like-for-like. While the growth in revenues could be slightly lower, the growth in income from operations is confirmed by the first half results.

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, especially in the automotive sector.

If exchange rates were to remain at roughly the same level as on June 30, 2018, particularly the euro/dollar rate of $1.17/€1, currency variations would have a negligible impact on revenues and on income from operations in H2.

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

July 25, 2018

Company Certification of the First Half 2018 Report

We certify that, to our knowledge, the first-half 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 half report on operations presents a true and sincere view of the significant events that occurred during the first six months of the fiscal year and their impact on the financial statements, and a description of the main risks and uncertainties for the coming six months.

Paris, July 25, 2018

Daniel Harari Chairman and Chief Executive Officer	Olivier du Chesnay Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	June 30, 2018	December 31, 2017	June 30, 2017
Goodwill	39,313	32,105	32,547
Other intangible assets	3,578	3,402	3,650
Property, plant and equipment	25,939	24,444	22,128
Non-current financial assets	1,909	2,566	2,127
Deferred tax assets	9,576	9,266	8,493
Total non-current assets	80,315	71,783	68,945
Inventories	34,072	31,133	29,000
Trade accounts receivable	47,860	55,065	49,865
Other current assets	31,593	28,719	33,122
Cash and cash equivalents	86,999	98,134	81,085
Total current assets	200,524	213,051	193,072
Total assets	**280,839**	**284,834**	**262,017**

EQUITY AND LIABILITIES

(in thousands of euros)	June 30, 2018	December 31, 2017	June 30, 2017
Share capital	31,743	31,571	31,452
Share premium	13,156	12,270	11,793
Treasury shares	(862)	(298)	(377)
Currency translation adjustments	(9,565)	(9,872)	(9,382)
Retained earnings and net income	118,020	117,538	100,925
Total equity	152,491	151,209	134,411
Retirement benefit obligations	9,775	9,518	9,176
Borrowings, non-current portion	-	-	-
Total non-current liabilities	9,775	9,518	9,176
Trade and other current payables	57,176	62,399	60,911
Deferred revenues	52,762	53,013	50,904
Current income tax liabilities	5,250	4,965	3,290
Borrowings, current portion	-	-	-
Provisions for other liabilities and charges	3,385	3,730	3,325
Total current liabilities	118,573	124,107	118,430
Total equity and liabilities	**280,839**	**284,834**	**262,017**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended June 30, 2018	Six months ended June 30, 2018	Three months ended June 30, 2017 (1)	Six months ended June 30, 2017 (2)
Revenues	73,038	140,236	69,025	138,512
Cost of goods sold	(20,632)	(39,848)	(18,303)	(36,736)
Gross profit	52,406	100,388	50,721	101,776
Research and development	(6,031)	(11,998)	(5,397)	(10,629)
Selling, general and administrative expenses	(36,533)	(71,373)	(36,224)	(72,686)
Income from operations	9,841	17,017	9,100	18,462
Financial income	19	40	109	141
Financial expenses	(118)	(221)	(139)	(272)
Foreign exchange income (loss)	(284)	(513)	(175)	(629)
Income before tax	9,459	16,324	8,895	17,702
Income tax	(2,591)	(4,057)	(2,654)	(4,966)
Net income	**6,868**	**12,267**	**6,241**	**12,736**

(in euros)				
Earnings per share:				
- basic	0.22	0.39	0.20	0.41
- diluted	0.21	0.38	0.19	0.39
Shares used in calculating earnings per share				
- basic	31,657,044	31,622,609	31,379,262	31,325,096
- diluted	32,333,456	32,350,781	32,381,133	32,317,650

(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 €4,814,000 and 'Selling, general and administrative expenses' to €36,807,000.*

(2) *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 €9,025,000 and 'Selling, general and administrative expenses' to €74,290,000.*

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended June 30, 2018	Six months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2017
Net income	6,868	12,267	6,241	12,736
Currency translation adjustments	432	285	(636)	(636)
Tax effect	62	22	(210)	(210)
Other comprehensive income to be reclassified in net income	494	307	(845)	(845)
Remeasurement of the net liability arising from defined benefits pension plans	38	38	6	6
Tax effect	(4)	(4)	(3)	(3)
Other comprehensive income not to be reclassified in net income	34	34	4	4
Total other comprehensive income	528	340	(841)	(841)
Comprehensive income	**7,396**	**12,607**	**5,400**	**11,894**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Six months ended Juin 30, 2018	Six months ended June 30, 2017
I - OPERATING ACTIVITIES		
Net income	12,267	12,736
Net depreciation, amortization and provisions	3,104	4,174
Non-cash operating expenses	376	638
Loss (profit) on sale of fixed assets	(13)	20
Changes in deferred income taxes	(303)	296
Changes in inventories	(3,226)	(4,306)
Changes in trade accounts receivable	7,179	6,616
Changes in other current assets and liabilities	(8,361)	(839)
Net cash provided by (used in) operating activities	11,023	19,334
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(887)	(332)
Purchases of property, plant and equipment	(3,333)	(2,922)
Proceeds from sales of intangible assets and property, plant and equipment	19	4
Acquisition cost of companies purchased (1)	(7,102)	-
Purchases of financial assets (2)	(2,502)	(2,105)
Proceeds from sales of financial assets (2)	3,170	2,290
Net cash provided by (used in) investing activities	(10,635)	(3,067)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	1,057	1,086
Purchases of treasury shares	(3,075)	(2,270)
Sales of treasury shares	2,491	2,020
Net cash provided by (used in) financing activities	(11,549)	(10,141)
Increase (decrease) in cash and cash equivalents	**(11,161)**	**6,127**
Cash and cash equivalents at opening	98,134	75,696
Increase (decrease) in cash and cash equivalents	(11,161)	6,127
Effect of changes in foreign exchange rates	25	(738)
Cash and cash equivalents at closing	86,999	81,085
Free cash flow	7,490	16,268
Income tax (paid) / reimbursed, net	(1,481)	(2,902)
Interest (paid)	-	-

(1) At June 30, 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							12,736	12,736
Other comprehensive income						(845)	4	(841)
Comprehensive income						(845)	12,739	11,894
Exercised stock options	204,332	1.00	204	881				1,086
Fair value of stock options							87	87
Sale (purchase) of treasury shares					(286)			(286)
Profit (loss) on treasury shares							23	23
Dividend paid							(10,977)	(10,977)
Balance at June 30, 2017	31,451,886	1.00	31,452	11,793	(377)	(9,382)	100,925	134,411
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							12,267	12,267
Other comprehensive income						307	34	340
Comprehensive income						307	12,301	12,607
Exercised stock options	171,594	1.00	172	886				1,057
Fair value of stock options							216	216
Sale (purchase) of treasury shares					(564)			(564)
Profit (loss) on treasury shares							(13)	(13)
Balance at June 30, 2018	**31,742,690**	**1.00**	**31,743**	**13,156**	**(862)**	**(9,565)**	**118,020**	**152,491**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 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 June 30, 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 June 30, 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 and interpretation presented below. They have been prepared under the responsibility of the Board of Directors at its meeting of July 25, 2018. Financial statements at June 30, 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.

The analysis performed showed that the implementation of IFRIC 22 – *Foreign currency transactions and advance consideration* as from January 1, 2018 had no significant impact on the Group's financial statements.

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 recurring services and software evolution 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 net 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 June 30, 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 half 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 June 30, 2018, their combined revenues totaled €0.4 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 June 30, 2018.

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

4.1. Q2 2018

(in thousands of euros)	Three months ended June 30				
	2018		2017	Changes 2018/2017	
	Actual	At 2017 exchange rates	Actual	Actual	Like-for-like
Revenues	73,038	75,513	69,025	+6%	+9%
Cost of goods sold	(20,632)	(20,873)	(18,303)	+13%	+14%
Gross profit	52,406	54,640	50,721	+3%	+8%
(in % of revenues)	71.8%	72.4%	73.5%	-1.7 points	-1.1 points
Research and development(1)	(6,031)	(6,031)	(5,397)	+12%	+12%
Selling, general and administrative expenses(1)	(36,533)	(37,554)	(36,224)	+1%	+4%
Income from operations	9,841	11,055	9,100	+8%	+21%
(in % of revenues)	13.5%	14.6%	13.2%	+0.3 points	+1.4 points
Income before tax	9,459	10,673	8,895	+6%	+20%
Income tax	(2,591)	na	(2,654)	-2%	na
Net income	6,868	na	6,241	+10%	na
€ / $ average parity	*1.19*	*1.10*	*1.10*		

(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 €4,814,000 and 'Selling, general and administrative expenses' to €36,807,000.*

4.2. First half 2018

(in thousands of euros)	Six months ended June 30				
	2018		2017	Changes 2018/2017	
	Actual	At 2017 exchange rates	Actual	Actual	Like-for-like
Revenues	140,236	147,239	138,512	+1%	+6%
Cost of goods sold	(39,848)	(40,514)	(36,736)	+8%	+10%
Gross profit	100,388	106,724	101,776	-1%	+5%
(in % of revenues)	71.6%	72.5%	73.5%	-1.9 points	-1.0 point
Research and development(1)	(11,998)	(11,998)	(10,629)	+13%	+13%
Selling, general and administrative expenses(1)	(71,373)	(73,853)	(72,686)	-2%	+2%
Income from operations	17,017	20,874	18,462	-8%	+13%
(in % of revenues)	12.1%	14.2%	13.3%	-1.2 points	+0.9 points
Income before tax	16,324	20,181	17,702	-8%	+14%
Income tax	(4,057)	na	(4,966)	-18%	na
Net income	12,267	na	12,736	-4%	na
€ / $ average parity	*1.21*	*1.08*	*1.08*		

(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 €9,025,000 and 'Selling, general and administrative expenses' to €74,290,000.*

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

5.1. Q2 2018

Revenues by region

(in thousands of euros)	Three months ended June 30						
	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	28,554	39%	28,694	29,709	43%	-4%	-3%
- France	3,917	5%	3,914	4,645	7%	-16%	-16%
Americas	22,027	30%	23,580	16,438	24%	+34%	+43%
Asia-Pacific	17,494	24%	18,216	17,711	26%	-1%	+3%
Other countries	4,964	7%	5,023	5,167	7%	-4%	-3%
Total	73,038	100%	75,513	69,025	100%	+6%	+9%
€ / $ average parity	*1.19*		*1.10*	*1.10*			

Revenues by type of business

(in thousands of euros)	Three months ended June 30						
	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
New CAD/CAM and PLM software licenses	4,113	6%	4,257	4,710	7%	-13%	-10%
CAD/CAM and PLM software evolution and online services contracts	9,287	13%	9,537	9,586	14%	-3%	-1%
CAD/CAM equipment and accompanying software	25,257	35%	25,957	21,235	31%	+19%	+22%
CAD/CAM equipment and accompanying software maintenance and online services contracts	13,127	18%	13,648	12,698	18%	+3%	+7%
Consumables and parts	17,402	24%	18,145	16,938	24%	+3%	+7%
Training and consulting services	3,341	5%	3,443	3,369	5%	-1%	+2%
Miscellaneous	511	1%	526	489	1%	+5%	+8%
Total	73,038	100%	75,513	69,025	100%	+6%	+9%
€ / $ average parity	*1.19*		*1.10*	*1.10*			

Revenues by nature

(in thousands of euros)	Three months ended June 30						
	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales (1)	33,223	45%	34,183	29,803	43%	+11%	+15%
Recurring revenues (2), of which:	39,816	55%	41,330	39,222	57%	+2%	+5%
- Recurring contracts	22,414	31%	23,185	22,284	32%	+1%	+4%
- Consumables and parts	17,402	24%	18,145	16,938	25%	+3%	+7%
Total	73,038	100%	75,513	69,025	100%	+6%	+9%
€ / $ average parity	*1.19*		*1.10*	*1.10*			

(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.*

5.2. First half 2018

Revenues by region

(in thousands of euros)	2018 Actual	2018 %	2018 At 2017 exchange rates	2017 Actual	2017 %	Changes 2018/2017 Actual	Changes 2018/2017 Like-for-like
Europe, of which:	56,912	41%	57,175	58,354	42%	-2%	-2%
- France	8,197	6%	8,190	9,377	7%	-13%	-13%
Americas	38,745	28%	42,865	33,660	24%	+15%	+27%
Asia-Pacific	35,613	25%	38,059	36,989	27%	-4%	+3%
Other countries	8,967	6%	9,140	9,509	7%	-6%	-4%
Total	140,236	100%	147,239	138,512	100%	+1%	+6%
€ / $ average parity	*1.21*		*1.08*	*1.08*			

Six months ended June 30

Revenues by type of business

(in thousands of euros)	2018 Actual	2018 %	2018 At 2017 exchange rates	2017 Actual	2017 %	Changes 2018/2017 Actual	Changes 2018/2017 Like-for-like
New CAD/CAM and PLM software licenses	7,836	6%	8,152	8,807	6%	-11%	-7%
CAD/CAM and PLM software evolution and online services contracts	18,727	13%	19,407	19,097	14%	-2%	+2%
CAD/CAM equipment and accompanying software	46,611	33%	49,040	44,400	32%	+5%	+10%
CAD/CAM equipment and accompanying software maintenance and online services contracts	25,923	19%	27,341	25,159	18%	+3%	+9%
Consumables and parts	33,474	24%	35,341	33,401	24%	0%	+6%
Training and consulting services	6,570	5%	6,822	6,631	5%	-1%	+3%
Miscellaneous	1,094	1%	1,136	1,017	1%	+8%	+12%
Total	140,236	100%	147,239	138,512	100%	+1%	+6%
€ / $ average parity	*1.21*		*1.08*	*1.08*			

Six months ended June 30

Revenues by nature

(in thousands of euros)	2018 Actual	2018 %	2018 At 2017 exchange rates	2017 Actual	2017 %	Changes 2018/2017 Actual	Changes 2018/2017 Like-for-like
Revenues from new systems sales (1)	62,112	44%	65,150	60,855	44%	+2%	+7%
Recurring revenues (2), of which:	78,125	56%	82,088	77,657	56%	+1%	+6%
- Recurring contracts	44,650	32%	46,747	44,256	32%	+1%	+6%
- Consumables and parts	33,474	24%	35,341	33,401	24%	0%	+6%
Total	140,236	100%	147,239	138,512	100%	+1%	+6%
€ / $ average parity	*1.21*		*1.08*	*1.08*			

Six months ended June 30

(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

	Six months ended June 30						
	2018			2017		Changes 2018/2017	
(in thousands of euros)	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Fashion and apparel	30,013	48%	31,929	26,520	44%	+13%	+20%
Automotive	22,353	36%	23,036	25,639	42%	-13%	-10%
Furniture	7,321	12%	7,617	5,646	9%	+30%	+35%
Other industries	2,424	4%	2,569	3,050	5%	-21%	-16%
Total	62,112	100%	65,150	60,855	100%	+2%	+7%
€ / $ average parity	*1.21*		*1.08*	*1.08*			

6. OPERATING SEGMENTS INFORMATION

Six months ended June 30, 2018 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	56,912	38,745	35,613	8,966	-	140,236
Income (loss) from operations	7,632	6,329	2,221	1,687	(852)	17,017

Six months ended June 30, 2017[(1)] (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	58,354	33,660	36,989	9,509	-	138,512
Income (loss) from operations	8,531	4,074	1,870	1,626	2,361	18,462

(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

Six months ended June 30, 2017 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	7,490	-	7,490
Proceeds from issuance of ordinary shares[1]	1,057	-	1,057
Sale and purchase of treasury shares[2]	(584)	-	(584)
Acquisition cost of companies purchased[3]	(7,102)	-	(7,102)
Dividends paid	(12,022)	-	(12,022)
Impact of currency variations – other	25	-	25
Change in cash position for the period	(11,135)	-	(11,135)
Cash position at December 31, 2017	98,134	-	98,134
Cash position at June 30, 2018	86,999	-	86,999
Change in cash position for the period	(11,135)	-	(11,135)

(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 June 30, 2018, was €7.5 million. This figure results from a combination of €11.3 million in cash flows provided by operating activities (including an increase in working capital requirement of €4.4 million) and capital expenditures of €3.5 million.

The main variations in working capital requirement were:

- −€7.2 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;
- +€2.8 million arising from the increase of the receivable on the French tax administration (*Trésor public*) corresponding to the research tax credit and the competitiveness and employment tax credit for Q2 2018 accounted for but not received, after deduction from the corporate income tax due by Lectra SA (see note 8 hereafter);
- +€5.5 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;
- +€0.1 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 June 30, 2018 was negative at €1.7 million. It comprised the receivable of €22.5 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. Restated for this receivable, the working capital requirement was negative at €24.1 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 (€4 million) and the competitiveness and employment tax credit (€0.5 million) for the first half 2018 were accounted for but not received.

The competitiveness and employment tax credits relating to the first half 2018 and previous years have been entirely deducted from the corporate income tax due by Lectra SA.

Thus, at June 30, 2018, Lectra SA held a €22.5 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 2018 (€2.8 million), 2017 (€4.6 million), 2016 (€2.6 million), 2015 (€5.7 million) and 2014 (€6.9 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 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 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, 2018, the company has purchased 137,484 shares and sold 108,697 shares at an average price of €22.37 and €22.92 respectively under the liquidity agreement administered by Exane BNP Paribas.

At June 30, 2018, the company held 41,077 Lectra shares (i.e. 0.13% of the share capital) with an average purchase price of €20.98 entirely under the liquidity agreement.

10. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	June 30, 2018	December 31, 2017
Cash and cash equivalents	86,999	98,134
Borrowings and financial debts	-	-
Net cash	86,999	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 the first half of 2018, the average parity between the US dollar and the euro was $1.21/€1.

Exchange risk hedging instruments

Exchange risk hedging instruments at June 30, 2018 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of €1.3 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 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 $1.17/€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.

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STATUTORY AUDITORS' REVIEW REPORT ON THE 2018 CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS
(Period from January 1, 2018 to June 30, 2018)

This is a free translation into English of the statutory auditors' review report on the half-year financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-year management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by the Shareholders' meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier"*), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Lectra SA, for the period from January 1 to June 30, 2018 ;
- the verification of the information presented in the half-yearly management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France except as explained in the following paragraph. A review of half-year financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have not reviewed the consolidated statement of income for the second quarter of the year 2018 and the comparative 2017 figures.

Based on our review, and subject the limitation referred to in the previous paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – the standard of IFRSs as adopted by the European Union applicable to interim financial information.

2. Specific verification

We have also verified the information presented in the half-year management report on the condensed half-year consolidated financial statements subject to our review. At the exception of the possible impact of the fact above, we have no other matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-sur-Seine and Mérignac, July 25, 2018

The Statutory Auditors
French original signed by

PricewaterhouseCoopers Audit SA	KPMG SA
Matthieu Moussy	Jean-Pierre Raud