LECTRA

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR FOURTH QUARTER AND FULL YEAR OF 2018

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the fourth quarter and full year ending December 31, 2018.

Audit procedures have been performed by the Statutory Auditors. The certification report will be issued at the end of the Board of Directors meeting of February 26, 2019.

In early 2018, the Company began selling some of its software on a subscription basis, using the Software-as-a-Service (SaaS) model. 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 a maintenance 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).

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

1. SUMMARY OF OPERATIONS FOR Q4 2018

Q4 was again affected by the consequences of the trade war between the United States and certain countries and regions of the world, including China and Europe. This weighed on the investment decisions of many customers in all Lectra market sectors.

With an average exchange rate of $1.14/€1 in Q4, the euro declined by 3% against the US dollar and strengthened by 1% against the yuan compared to Q4 2017. Currency changes mechanically increased revenues by €0.6 million (+1%) and income from operations by €0.6 million (+5%) at actual exchange rates, compared to like-for-like figures.

Slight decline in orders for new systems

Q4 orders for new systems totaled €32.5 million, down 3% (2% at actual exchange rates) compared to Q4 2017.

Orders for new CAD/CAM and PLM software licenses (€4.6 million) and orders for CAD/CAM equipment and accompanying software (€24.1 million) decreased by 4%, while orders for training and consulting (€3.1 million) increased by 3%.

Strong growth in income from operations

Revenues totaled €75 million, up 4% compared to Q4 2017 (+5% at actual exchange rates).

Income from operations amounted to €12 million, up 11% like-for-like and 17% at actual exchange rates. The operating margin amounted to 16%, up 1 percentage point like-for-like and 1.7 percentage points at actual exchange rates.

Net income amounted to €8.6 million, down €0.5 million (-6%) at actual exchange rates. The net income for 2017 included a net tax profit of €0.6 million in respect of non-recurring items.

Finally, free cash flow totaled €12.8 million (€14 million in Q4 2017). This includes receipt of €6.9 million relating to the balance of the 2014 French research tax credit (in 2017, the balance of the 2013 French research tax credit, €6.3 million, was received in Q4).

2. SUMMARY OF EVENTS AND PERFORMANCE IN 2018

Acquisition of the company Kubix Lab

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

Founded at the end of 2015, Kubix Lab developed a cutting-edge technological offer called *Kubix Link*, which enables fashion brands to manage from end to end, within a single application, all product information deriving mainly from multiple IT systems (ERP, PDM, PLM, etc.). Users can then modify, enrich or add new data, while maintaining data synchronization with all IT systems.

The acquisition had a non-material impact on the results of 2018.

Negative impact of euro appreciation

With an average exchange rate of $1.18/€1 in 2018, the euro strengthened by 5% against the US dollar and 2% against the yuan compared to 2017. In parallel, in a context of distrust regarding the currencies of certain emerging market countries, the Turkish lira declined by 28%, the Brazilian real by 16%, the Tunisian dinar by 12%, the Russian ruble by 11% and the Indian rupee by 9% against the euro.

The appreciation of the euro against most currencies had a major negative mechanical impact on the full-year results, reducing revenues by €6.7 million (-2%) and income from operations by €3.3 million (-8%) at actual exchange rates, compared to like-for-like figures.

Challenging macroeconomic and geopolitical environment

The entire year was marked by a "wait-and-see" attitude by companies in all Lectra market sectors, particularly in automotive, following the protectionist measures announced and put in place first by the United States and subsequently by Europe and China.

In addition, the economy of those emerging countries whose currency had experienced a sharp decline was negatively affected, leading some customers to put investment decisions on hold.

Stability in orders for new systems

Overall, orders for new systems amounted to €121.7 million, stable relative to 2017. Orders for new CAD/CAM and PLM software licenses decreased by 5%, orders for CAD/CAM equipment and accompanying software increased by 1%, and orders for training and consulting were down by 1%.

Orders for CAD/CAM and PLM software include sales in SaaS mode, with an annual value of €0.9 million (this amount was negligible in 2017); equivalent orders for perpetual licenses would have come to €2 million and accounted for 13% of the total amount of software orders.

Orders decreased by 7% in Europe and 10% in Asia-Pacific. They increased by 28% in the Americas and by 18% in the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.).

Orders increased by 5% in the fashion and apparel market; while they decreased by 4% in the automotive market, 5% in the furniture market, and 4% in other industries. These markets accounted for 50%, 35%, 11% and 4% of total orders, respectively.

At actual exchange rates, orders for new systems decreased by 2%.

Income from operations in line with the Company's objectives

The Company's objectives for 2018, stated at the beginning of the year, were to achieve 6% to 10% revenue growth and 7% to 15% growth in income from operations, like-for-like.

The Company then indicated on July 25, and subsequently confirmed on October 30, that while revenue growth could be slightly lower, growth in income from operations should be in line with objectives.

Revenues amounted to €282.6 million, up 4% relative to 2017 (+2% at actual exchange rates).

Income from operations totaled €40.2 million, up €4.2 million (+11%) and the operating margin was 14.2%, up 0.8 percentage points. At actual exchange rates, income from operations rose by 2% and the operating margin was stable.

These results are in line with the Company's expectations as set out on July 25 and then October 30, 2018. These results are a new historic record.

Net income amounted to €28.7 million, down €0.5 million (-2%) at actual exchange rates.

Free cash flow

Free cash flow totaled €21.6 million, compared to €33.2 million in 2017.

The variation between 2018 and 2017 arises primarily from the temporary change in operating working capital requirement, up €3.7 million in 2018 (see note 7 of the notes to this report), after having decreased by €7.8 million in 2017.

Impact of the sale of certain software in SaaS mode

In early 2018, the Company began selling some of its software on a subscription basis, using the Software-as-a-Service model. New software offers, available since April 2018, are sold only in SaaS mode.

The change to the SaaS model, which is at the heart of the Company's strategic roadmap, will contribute to the long-term development of the Company's activities and strengthen its recurring revenue, while meeting customers' expectations. In the short-term, however, it has a negative impact as revenues from software subscriptions are recorded progressively over several years.

Software orders in SaaS mode, placed primarily in the second half of the year, represented an annual subscription value of €0.9 million and revenues of €0.3 million in 2018 for orders already invoiced. If the SaaS sales had been made in the form of perpetual licenses, they would have accounted for total revenues of €1.5 million, with their associated maintenance contracts. The change to the SaaS model thus had a negative impact of €1.2 million on both revenues and income from operations.

While this had a low impact on revenues, it had a greater impact on income from operations, which would have increased by 14% instead of 11% if the software sales model had not changed.

In addition, this change in model had a negative impact of €1 million on free cash flow in 2018.

A zero-debt Company, a particularly robust balance sheet

At December 31, 2018, consolidated shareholders' equity amounted to €170.4 million (€151.2 million at December 31, 2017).

The Company is debt free. Cash and cash equivalents, and the net cash position, totaled €102.2 million. This is also a record level, which will enable the Company to self-finance its internal and external development.

3. 2017-2019 STRATEGIC ROADMAP: SECOND PROGRESS REPORT

The successful completion of the previous two roadmaps (2010-2012 and 2013-2016), combined with the success of the €50 million Investments for the Future program over the 2012-2015 period, have enabled the Company to build its new strategic roadmap for 2017-2019 on particularly robust foundations.

The strategic roadmap—first published in the Financial Report dated February 9, 2017—constitutes the decisive initial stage in the evolution of Lectra over the next ten years. It sets out the fundamentals that will enable the Company to leverage the full potential of its new offers for Industry 4.0 from 2020 onwards. Its objectives are to reinforce Lectra's global leadership and ensure sustainable growth, while preserving its short-term profitability.

Overall, the second year of the roadmap was successfully completed according to plan.

The main sections of the roadmap are summarized below; each is followed by the corresponding second progress report.

Four major trends will shape Lectra's market sectors and geographic markets

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

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

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

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

Lastly, China's evolving economy. The country is accelerating its transition towards a growth model firmly anchored in consumption, added-value and productivity. While this evolution will create new opportunities, substantial challenges for both Chinese and non-Chinese companies will also emerge, with global consequences. Major Chinese industrial apparel companies are moving up the value chain. The most advanced are developing their own brands and launching first on the Chinese market, before entering international markets in certain cases. China is intent on retaining its dominant position on the global industrial stage, with the government propelling factories towards full modernization. For its automotive industry—already world number one—by 2020 China is expected to account for nearly a third of all light vehicles produced in the world. In parallel, China is already the world's number one consumer of cars, with enormous growth potential. Indeed, its premium segment is set to overtake the United States in 2020. Finally, the furniture market, dominated by local brands, will continue to grow in step with the rise of China's middle class. Furniture exports are expected to decline progressively as a proportion of total output.

Progress report

These four main trends and their impact continue to constitute the main evolutions for the environment of Lectra customers. A growing number of companies in developed and emerging countries alike are incorporating a digital component in their strategy.

The trade war between the United States and China does not call into question the fundamental change in the Chinese economy; the country's industrialists are advancing their digitalization transformation and incorporating the principles and technologies of Industry 4.0 in their processes, as the Chinese market confirms its potential for brands from across the globe.

Lectra, an indispensable player in Industry 4.0

Industry 4.0 presents an unprecedented opportunity for Lectra, calling for the integration of smart solutions and services, and the replacement of production plants incompatible with connected factory concepts. The combination of Software-as-a-Service (SaaS) with the cloud are opening up new horizons for innovation.

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

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

In 2007, Lectra blazed a new trail when it fitted over a hundred sensors to its *Vector* automated cutter. Its capacity to develop and program its own electronics enables the Company to manage in real time information emitted by the many hundreds of thousands of sensors installed in current generations of *Vector*, *Versalis* and *FocusQuantum*. This also creates a high entry barrier for competitors, still reliant on standard electronic boards. In total, over 3,900 Industry 4.0-compatible machines are in operation worldwide.

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

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

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

These new offers, which started to be commercialized progressively in 2018, will be enriched in 2019. They will be compatible with all cutting machines sold since 2007, and with the latest releases of nearly all software.

Progress report

The year 2018 was highlighted by the launch in selected pilot countries of numerous innovative offers enabling Lectra's customers to implement the principles of Industry 4.0. These solutions constitute new product lines that meet customers' new requirements or that supplement existing software.

In April, Lectra launched in Europe and the United States its first Cutting Room 4.0 for Made-To-Order upholstered furniture. In December, the Company announced the rollout, starting in early 2019, of *Fashion On Demand by Lectra*, a disruptive new offer that enables production of personalized garments at ready-to-wear production speed. *Fashion On Demand by Lectra* streamlines operations thanks to its 360° view of the entire production cycle and optimizes the management of complex individual demands from custom order to cut piece.

These leading-edge offers deliver improved agility, production capacity and profitability to manufacturers. The foundation of Lectra's Cutting Room 4.0 is its *Digital Cutting Platform* and a cloud-based data hub, which connects design, development and manufacturing teams, while also ensuring seamless data exchanges between Lectra customers' IT systems, including ERP software, and production lines.

At the same time, Lectra launched *Virga*, its brand-new single-ply fabric cutting solution that analyzes the material, automatically adjusts the cutting layout and optimizes cycle times for plain and patterned fabrics, allowing simultaneous loading, scanning, cutting and offloading.

In April, the Company announced the first of a series of cloud-based applications conceptualized for product development and production teams: *Quick Estimate* and *Quick Nest*. These applications were first launched in France and Italy, then sold progressively in other countries in the latter part of 2018. Their commercial deployment will continue in 2019. *Quick Estimate* allows instant calculation of fabric consumption—which often accounts for as much as 70 percent of the cost of a garment—via *Modaris,* Lectra's 2D/3D product development solution. *Quick Nest* facilitates access to automatic marker-making by harnessing the power of cloud-based computing and is accessed through *Diamino*, Lectra's marker-making solution.

These offers will become available progressively worldwide in 2019. They will continue to be enriched in 2019 and subsequent years.

Developing the business model for profitable, long-term growth

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

The roadmap's five strategic objectives are:

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

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

- China: as the country upgrades its manufacturing plant and expands its domestic market, supported by the Chinese government's strategic 'Made in China 2025' initiative;
- Leather: this is increasingly used in the automotive and furniture industries. Almost all materials are still cut by hand, but cutting processes need to be automated;
- Airbags: due to the growing number being fitted to each vehicle, and to the potential to renew installed bases for older-generation automated cutters;
- Personalization of consumer products: the entire value chain needs to be fully automated and interconnected, requiring hefty investments in cutting-edge technology;
- Finally, the digitalization of the fashion and apparel industry, which implies adopting collaborative technologies to facilitate management of collections and products.

Progress report

Progress was made on all five strategic objectives; they will continue to guide the Company's actions in 2019.

While the Company had initially planned to transform most software license revenues into SaaS revenues, it decided in early 2018 to sell its existing software using both the current approach (perpetual licenses with evolution contracts and online services) and in SaaS mode, with new software available only in SaaS mode. The Company believes that until the completion of the 2017-2019 strategic roadmap, most software sales will be in the form of perpetual licenses. The Company has therefore decided to adjust its fourth strategic objective, which has become: "to progressively launch new software offers in SaaS mode".

Unlike the previous year, the degraded macroeconomic and geopolitical environment in 2018 meant that not all the growth accelerators contributed to the Group's dynamic activity; but they are expected to drive revenue growth in 2019.

Macroeconomic assumptions

The roadmap was based on macroeconomic forecasts known on February 9, 2017. These suggest a slight pick-up in global growth over the three years. However, geopolitical tensions, new fiscal and regulatory measures following elections in 2016 and 2017—notably in the United States and Europe—and the possible calling into question of free trade agreements, as well as fresh currency turmoil, could breed uncertainty and impact businesses' investment decisions and pace throughout the period.

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

Progress report

The geopolitical environment and the substantial depreciation of emerging countries' currencies led to a "wait-and-see" attitude or a freeze on investment decisions by some customers (see section 2).

Financial objectives

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

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

These objectives accompanied maintaining a security ratio equal to or greater than 80% (see note 2 of the notes to this report).

The Company indicated at the start of 2017 that these objectives would be subject to review over the three-year period in light of potential uncertainties, notably economic and political, and in the case of one or more targeted acquisitions.

Progress report

In light of the appreciation of the euro in 2017 against most currencies—particularly the US dollar and the yuan—and continuing exchange rate volatility, the Company decided at the beginning of 2018 to replace its second financial objective by: "Growth in operating margin equal to or greater than revenue growth on a like-for-like basis" for 2018 and 2019.

Increased investment in the design and development of Lectra's offers

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

The Company believes it has the necessary resources to achieve its growth potential. Recruitment of sales and pre-sales consultants together with marketing, services, production and administrative positions, will grow more slowly than growth in revenues.

Progress report

In early 2018, Lectra decided to broaden the scope of R&D costs to encompass the increasingly diverse teams involved in the design and development of the offer.

R&D investments came to €30.8 million in 2018. They increased by 11% and came to 10.9% of revenues. 346 people (20% of the Group's workforce) are involved in the design and development of the offer, 20 more than on December 31, 2017.

In 2019, the Company will pursue its policy of substantial investments in innovation, to further extend its technological leadership and its value proposition.

Use of available cash

Lectra's business model is based on generating a high level of free cash flow and a structurally negative working capital requirement.

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

The Company has sufficient cash to finance future targeted acquisitions, and in the event of a major acquisition a debt equivalent to half its shareholders' equity could be envisaged.

The Company could, exceptionally, repurchase its own shares, excluding those covered by the liquidity agreement, up to a maximum of €50 million, in order to tender them in exchange, or as payment, as part of external growth operations.

Progress report

Once again, the financial structure at December 31, 2018, was stronger than the year before (see section 2).

In January 2018, the Company acquired Kubix Lab for €7.1 million. By combining its offerings with those of Kubix Lab, Lectra will provide its fashion customers with a revolutionary product information management platform (see section 2).

In addition, thanks to the strength of its business model, the Company had a positive net available cash position of €102.2 million at December 31, 2018.

Finally, the Company will declare a dividend in respect of FY 2018 5.3% higher than the dividend in respect of FY 2017 (see section 5).

4. CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

Revenues

Revenues amounted to €282.6 million, up 4% like-for-like and 2% at actual exchange rates.

They increased by 16% in the Americas, 8% in Asia-Pacific, decreased by 4% in Europe, and rose by 3% in the rest of the world. These regions respectively accounted for 27%, 27%, 39% (including 6% for France), and 7% of total revenues. In 2017, these regions respectively accounted for 25%, 26%, 42% (including 7% for France), and 7% of total revenues.

Revenues from new systems sales

Revenues from new systems sales (€122.7 million) increased by 2% and accounted for 43% of total revenues (44% in 2017):

- Revenues from CAD/CAM and PLM software sold in the form of perpetual licenses (€13.9 million) decreased by 14% and accounted for 5% of total revenues (6% in 2017). Their decrease is due to the growing importance of their sales in SaaS mode, which appear under revenues from recurring contracts;
- Revenues from CAD/CAM equipment and accompanying software (€93.8 million) increased by 5% and accounted for 33% of total revenues (32% in 2017);
- Training and consulting revenues (€12.7 million) declined by 2% and accounted for 4% of total revenues (5% in 2017).

Revenues from recurring contracts, consumables and parts

Recurring revenues (€159.8 million) increased by 6%. They accounted for 57% of total revenues (56% in 2017).

Revenues from recurring contracts—which represented 57% of recurring revenues and 33% of total revenues—totaled €91.4 million, a 6% increase:

- Subscriptions for CAD/CAM and PLM software sold in SaaS mode amounted to €0.5 million (following a negligible amount in 2017);
- Revenues from CAD/CAM and PLM software evolution and online services contracts (€37.6 million), stable compared to 2017, represented 13% of total revenues;
- Revenues from CAD/CAM equipment and accompanying software maintenance and online services contracts (€53.3 million), up 9%, represented 20% of total revenues.

In parallel, revenues from consumables and parts (€68.4 million) increased by 7% and represented 24% of total revenues (24% in 2017).

Order backlog

At December 31, 2018, the order backlog for new systems totaled €22.8 million. This amount includes €0.7 million for CAD/CAM and PLM software sold in SaaS mode, which have not yet started to be invoiced; the value is equivalent to the amount that would have been recorded if the corresponding orders had been made in the form of perpetual licenses.

The order backlog was down €2.2 million relative to December 31, 2017, like-for-like, and €2 million at actual exchange rates.

This backlog comprised €16.8 million in orders for new software licenses and CAD/CAM equipment, including €12.9 million for shipment in Q1 2019, and the remainder over the rest of the year, and €6 million for training and consulting, to be delivered as projects progress.

Gross profit

Gross profit totaled €203.5 million, up €7.7 million compared to 2017.

The overall gross profit margin was 72%, down 0.3 percentage points relative to 2017 (-0.8 percentage points at actual exchange rates), primarily due to changes in the sales mix.

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

Overhead costs

Total overhead costs were €163.3 million, up €3.4 million (+2%) compared to 2017.

The breakdown is as follows:

- €145.7 million in fixed overhead costs (+3%);
- €17.6 million in variable costs (-2%).

At actual exchange rates, total overhead costs were stable.

R&D costs (€30.8 million) are fully expensed in the period, included in overhead costs, and represented 10.9% of revenues (€27.7 million and 10% for 2017). After deducting the research tax credit, the corresponding portion of the competitiveness and employment tax credit applicable in France, and grants received, net R&D costs amounted to €21.5 million (€19.8 million in 2017).

Income from operations and net income

Income from operations was €40.2 million, an increase of €4.2 million (+11%) like-for-like and €1 million (+2%) at actual exchange rates compared to 2017.

This increase in income from operations stems from the positive impact of the growth in recurring revenues (€7.4 million) and in gross profit margins (€0.8 million). These impacts were partly offset by the increase in fixed overhead costs (€3.9 million) and by the adverse impact of currency fluctuations (€3.3 million). The increased revenues from new systems sales had a negligible impact on the change in income from operations due to a less favorable product mix.

The operating margin was 14.2%, up 0.8 percentage points like-for-like and unchanged 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 €1.1 million.

After an income tax expense of €10.2 million, net income amounted to €28.7 million, down €0.5 million (-2%) at actual exchange rates. The net tax expense for 2017 included non-recurring tax income of €0.6 million.

Net earnings per share were €0.91 on basic capital and €0.89 on diluted capital (€0.93 on basic capital and €0.90 on diluted capital in 2017).

Free cash flow

Free cash flow totaled €21.6 million, down €11.6 million compared with 2017, at actual exchange rates. This includes the receipt of €6.9 million relating to the 2014 French research tax credit (€6.3 million in 2017 relating to the 2013 French research tax credit). The research tax credit (€8.4 million) and the competitiveness and employment tax credit (€1 million) for 2018, applicable in France, were not received.

Free cash flow results from a combination of €28.8 million in cash flows provided by operating activities (including an increase in working capital requirement of €3.7 million, and an increase in other operating non-current assets of €5 million, corresponding to the part of the 2018 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA – see note 8 hereafter) and capital expenditures of €7.2 million.

Shareholders' equity

At December 31, 2018, consolidated shareholders' equity amounted to €170.4 million (€151.2 million at December 31, 2017).

The Company is debt free. Cash and cash equivalents, as well as net cash position, totaled €102.2 million (€98.1 million at December 31, 2017), after the disbursement of €7.1 million for the acquisition of the company Kubix Lab and the dividend payment of €12.0 million declared in respect of fiscal year 2017.

The working capital requirement was negative €11 million. It comprised the current portion (€5.7 million) of the €17.9 million receivable on the French tax administration (*Trésor public*), corresponding to the research tax credits recognized since fiscal year 2015. The portion to be repaid over one year is now carried on the balance sheet under other non-current assets (see note 8 in the notes to this report). If these tax credits cannot be deducted from the year's corporate income tax, they are reimbursed to the Company by the French tax administration in the fourth year following the year they are booked.

5. APPROPRIATION OF EARNINGS

Dividend raised to €0.40 per share

The Board of Directors will propose to the Ordinary Shareholders' Meeting of April 30, 2019 to increase the dividend to €0.40 per share (+5.3%) in respect of FY 2018. This dividend would represent a payout ratio of 44% of consolidated net income and a yield of 2.2% based on the December 31, 2018 closing share price.

Previous dividends were €0.38 per share in respect of fiscal 2017, €0.35 in respect of fiscal 2016 and €0.30 in respect of fiscal 2015.

Subject to approval by the shareholders, the dividend will be made payable on May 7, 2019.

6. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in share capital

At December 31, 2018, the share capital totaled €31,846,757, divided into 31,846,757 shares with a par value of €1.00.

Share capital increased by €275,661 (with a total share premium of €1,572,843) due to the creation of 275,661 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 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 December 31, 2018, the Company held 0.1% 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 December 31, 2018, was €18.18, down 28% compared to December 31, 2017 (€25.15). It reached a low of €16.72 on December 18 and a high of €26.30 on January 8.

The CAC 40 index, CAC All-Tradable index and the CAC Mid & Small index declined by 11%, 12% and 22% respectively over the year.

According to Bloomberg, 17.1 million shares were traded on all platforms in 2018 (19.3 million in 2017), including 31% on Euronext (48% in 2017). The 2017 figure does not take into account the disposal by André Harari of his entire stake in Lectra in June 2017.

In its press releases dated March 27, 2018, and January 8, 2019, the Company confirmed its eligibility for the "PEA-PME" scheme designed to promote investment in small and mid-cap companies. As a consequence, Lectra shares may be held in PEA-PME savings accounts, which benefit from the same tax advantages as the traditional "PEA" equity savings plan.

7. SIGNIFICANT POST-CLOSING EVENTS

On January 15, 2019, the Company announced the strengthening of its Executive Committee to accelerate the implementation of its Lectra 4.0 strategy, initiated in early 2017, with the objective of becoming an indispensable player in Industry 4.0 (*see press release dated January 15, 2019*).

8. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 30, 2019.

First, second, and third quarter earnings for 2019 will be published on April 29, July 29, and October 30, 2019, respectively, after the close of trading on Euronext.

Full-year earnings for 2019 will be published on February 11, 2020.

9. BUSINESS TRENDS AND OUTLOOK

2019 outlook

The Company entered 2019 with a particularly robust balance sheet and operating fundamentals, a new organization of its subsidiaries, and a strengthened Executive Committee.

Lectra significantly enhanced its products and services offer in 2018, with new innovative solutions to empower its customers in implementing the principles of Industry 4.0, which will be progressively rolled out worldwide in 2019.

An uncertain geopolitical environment

Still, the year ahead is fraught with unpredictability in light of persisting uncertainty regarding geopolitical factors and the threat of protectionism, amid growing fears of an economic slowdown. These considerations could continue to weigh on businesses' investment decisions.

Impact of exchange rates

The Company has based its 2019 objectives on the exchange rates in effect at year-end 2018, notably $1.15/€1.

When converting 2018 results using the exchange rates retained for 2019, revenues are mechanically increased by €1.6 million and income from operations by €1.2 million, relative to the published results.

Sensitivity to fluctuations in the value of the US dollar is covered in note 12 of the notes to this report.

Growing impact of sales of certain software in SaaS mode

The Company has decided to sell its new software exclusively in SaaS mode. If the positive response to the new offer is confirmed, the volume of software sold in SaaS mode should show strong growth in 2019.

This change in sales model will have a positive impact on the Company's revenues and income from operations in the medium term. However, it has a negative impact on the Company's stated objectives for 2019, which are 1 to 2 percentage points lower for revenue growth, and 9 to 12 percentage points lower for income from operations, than the comparable figures if all software were sold as perpetual licenses along with their associated maintenance contracts.

Financial objectives

In light of the above, the Company has set the objective of achieving revenue growth of 3% to 7% in 2019, like-for-like. Growth in income from operations before non-recurring items would then be down 4% in the low assumption for revenue growth, flat in the median assumption, and up 4% in the high assumption.

Without the impact of growing sales of software on a subscription basis, the objective for revenue growth would have been stated as 4% to 8% and the objective for growth in income from operations before non-recurring items would have been 5% to 16%.

With the exchange rates retained for 2019, the growth in revenues and in income from operations before non-recurring items, at actual exchange rates, would be 0.6 and 3 points higher, respectively, than the like-for-like figures.

The Company remains confident in its medium-term growth prospects

More than ever, the entire Company is focused on growing its sales activity. The new products launched in 2018 and those that will be released in subsequent years should make an ever-increasing contribution to this growth.

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

The Board of Directors

February 12, 2019

Company Certification of the Fourth Quarter and Fiscal Year 2018 Report

We certify that, to our knowledge, the financial statements of the fourth quarter and fiscal year 2018 have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and financial results of the Company and of its consolidated companies. We further certify that the report on operations for the fourth quarter and for the fiscal year 2018 presents a true and sincere view of the significant events that occurred during the year and their impact on the financial statements, and a description of the main risks and uncertainties faced by the Company.

Paris, February 12, 2019

Daniel Harari

Chairman and Chief Executive Officer

Olivier du Chesnay

Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At December 31

(in thousands of euros)	2018	2017
Goodwill	39,473	32,105
Other intangible assets	3,688	3,402
Property, plant and equipment	26,347	24,444
Other non-current assets [(1)]	14,425	15,373
Deferred tax assets	9,194	9,266
Total non-current assets	93,127	84,590
Inventories	34,326	31,133
Trade accounts receivable	58,564	55,065
Other current assets [(1)]	15,447	15,912
Cash and cash equivalents	102,223	98,134
Total current assets	210,560	200,244
Total assets	**303,687**	**284,834**

EQUITY AND LIABILITIES

(in thousands of euros)	2018	2017
Share capital	31,847	31,571
Share premium	13,843	12,270
Treasury shares	(560)	(298)
Currency translation adjustments	(9,554)	(9,872)
Retained earnings and net income	134,802	117,538
Total equity	170,377	151,209
Retirement benefit obligations	9,823	9,518
Borrowings, non-current portion	-	-
Total non-current liabilities	9,823	9,518
Trade and other current payables	59,664	62,399
Deferred revenues	56,225	53,013
Current income tax liabilities	3,488	4,965
Borrowings, current portion	-	-
Provisions for other liabilities and charges	4,110	3,730
Total current liabilities	123,487	124,107
Total equity and liabilities	**303,687**	**284,834**

(1) The Group now presents separately the current and non-current part of the income tax receivable related to the French research tax credit. Consequently, the 2017 amounts have been restated accordingly: an amount of €12,807,000 was reclassified for 2017, from 'Other current assets' (which amounted to €28,719,000) to 'Other non-current assets' (which amounted to €2,566,000).

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended December 31, 2018	Twelve months ended December 31, 2018	Three months ended December 31, 2017 (1)	Twelve months ended December 31, 2017 (2)
Revenues	74,963	282,558	71,489	277,201
Cost of goods sold	(21,187)	(79,014)	(20,042)	(75,269)
Gross profit	53,776	203,544	51,446	201,932
Research and development	(5,398)	(21,497)	(5,122)	(19,807)
Selling, general and administrative expenses	(36,399)	(141,798)	(36,102)	(142,851)
Income from operations	11,978	40,249	10,222	39,274
Financial income	129	231	35	223
Financial expenses	(106)	(443)	(111)	(493)
Foreign exchange income (loss)	(262)	(1,120)	172	(574)
Income before tax	11,739	38,917	10,318	38,431
Income tax	(3,092)	(10,177)	(1,128)	(9,166)
Net income	**8,647**	**28,740**	**9,190**	**29,264**

(in euros)				
Earnings per share:				
- basic	0.27	0.91	0.29	0.93
- diluted	0.27	0.89	0.28	0.90
Shares used in calculating earnings per share				
- basic	31,787,361	31,697,500	31,500,845	31,403,960
- diluted	32,286,052	32,333,069	32,381,329	32,343,804

(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 €4,758,000 and 'Selling, general and administrative expenses' to €36,466,000.*

(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 €17,690,000 and 'Selling, general and administrative expenses' to €144,968,000.*

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended December 31, 2018	Twelve months ended December 31, 2018	Three months ended December 31, 2017	Twelve months ended December 31, 2017
Net income	8,647	28,740	9,190	29,264
Currency translation adjustments	(68)	288	(17)	(1,017)
Tax effect	42	30	(13)	(318)
Other comprehensive income to be reclassified in net income	(26)	318	(30)	(1,335)
Remeasurement of the net liability arising from defined benefits pension plans	118	156	(83)	(173)
Tax effect	(50)	(54)	22	52
Other comprehensive income not to be reclassified in net income	68	102	(61)	(121)
Total other comprehensive income	42	420	(91)	(1,456)
Comprehensive income	**8,689**	**29,159**	**9,099**	**27,808**

CONSOLIDATED STATEMENT OF CASH FLOWS

Twelve months ended December 31 (in thousands of euros)	2018	2017
I - OPERATING ACTIVITIES		
Net income	28,740	29,264
Net depreciation, amortization and provisions	8,380	7,910
Non-cash operating expenses	343	1,143
Loss (profit) on sale of fixed assets	(13)	46
Changes in deferred income taxes	61	(658)
Changes in inventories	(4,918)	(7,112)
Changes in trade accounts receivable	(82)	3,464
Changes in other current assets and liabilities (1)	1,319	11,487
Changes in other operating non-current assets (1)	(5,047)	(4,519)
Net cash provided by (used in) operating activities	28,783	41,027
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,736)	(817)
Purchases of property, plant and equipment	(5,809)	(6,747)
Proceeds from sales of intangible assets and property, plant and equipment	22	4
Acquisition cost of companies purchased (2)	(7,102)	-
Purchases of financial assets (3)	(5,180)	(5,153)
Proceeds from sales of financial assets (3)	5,551	4,879
Net cash provided by (used in) investing activities	(14,254)	(7,834)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	1,849	1,682
Dividends paid	(12,022)	(10,977)
Purchases of treasury shares	(5,445)	(4,814)
Sales of treasury shares	5,110	4,646
Net cash provided by (used in) financing activities	(10,508)	(9,463)
Increase (decrease) in cash and cash equivalents	**4,021**	**23,730**
Cash and cash equivalents at opening	98,134	75,696
Increase (decrease) in cash and cash equivalents	4,021	23,730
Effect of changes in foreign exchange rates	68	(1,291)
Cash and cash equivalents at closing	102,223	98,134
Net cash provided by (used in) operating activities	28,783	41,027
+ Net cash provided by (used in) investing activities	(14,254)	(7,834)
- Acquisition cost of companies purchased	7,102	-
Free cash flow	21,631	33,193
Income tax (paid) / reimbursed, net	(6,391)	(4,730)
Interest (paid)	-	-

(1) The Group now presents separately the current and non-current part of the income tax receivable related to the French research tax credit. Thus, 'Changes in other operating non-current assets' corresponds to the research tax credit for the period, after deduction from the corporate income tax due by Lectra SA, which will be repaid in the course of the fourth year. Consequently, the 2017 amounts have been restated accordingly: 'Changes in other operating non-current assets' did not exist, and 'Changes in other current assets and liabilities' amounted to €6,968,000.

(2) At December 31, 2018, this amount corresponds to the acquisition cost of Kubix Lab (see note 3 hereafter).

(3) 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							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							28,740	28,740
Other comprehensive income						318	102	420
Comprehensive income						318	28,842	29,159
Exercised stock options	275,661	1.00	276	1,573				1,849
Fair value of stock options							493	493
Sale (purchase) of treasury shares					(262)			(262)
Profit (loss) on treasury shares							(49)	(49)
Dividend paid							(12,022)	(12,022)
Balance at December 31, 2018	**31,846,757**	**1.00**	**31,847**	**13,843**	**(560)**	**(9,554)**	**134,802**	**170,377**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 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 more than 1,700 employees worldwide: 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 consolidated financial statements at December 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 and interpretation presented below. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 12, 2019. Audit procedures have been applied to the consolidated financial statements. The statutory auditors' certification report will be issued after the Board of Directors meeting on February 26, 2019, which will approve the notes to the consolidated financial statements. The Q4 financial statements have not been reviewed separately 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. The Group is currently finalizing the impacts of IFRS 16 – *Leases*, which will be applicable from January 1, 2019.

Moreover, 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 €122.7 million in 2018. 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 axes of analysis 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 accounted for.

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*. The new provisions of IFRS 9 concerning the booking and evaluation of financial assets have been applied retrospectively.

The main impacts of these provisions are as follows:

- Classification of financial assets: non-consolidated shares are now accounted for at fair value through P&L according to IFRS 9, since the IAS 39 exemption to maintain them at cost no longer exists under IFRS 9; this change had no significant impact;
- Evaluation of accounts receivable: IFRS 9 replaces the 'incurred losses' model from IAS 39 by the 'expected credit losses' model. Thus, credit losses are now accounted for earlier under IFRS 9 than under IAS 39; these new provisions had no significant impact.

Moreover, the Group does not apply hedge accounting and is not impacted the relating provisions of IFRS 9.

Implementation of IFRS 16 – *Leases* at January 1, 2019

The Group will apply, as from January 1, 2019, the new standard IFRS 16 – *Leases*.

The Group rents its office locations in most of the countries where it operates, with the notable exception of the Bordeaux-Cestas site in France, which it owns. Moreover, the contracts entering the scope of IFRS 16 also include vehicle rentals and IT equipment leases.

Until now, every lease contract was qualified either as finance lease or an operating lease, with a distinct accounting treatment for each category. In application of IFRS 16, all lease contracts will now be recognized as assets by way of booking a right-of-use, and as liabilities with a debt corresponding the discounted value of future payments. Nonetheless, the standard provides exemption for short-term rentals (less than 12 months) or those relating to low-value assets (the Group set its threshold at $5,000). The Group intends to use both exemptions.

The lease term is defined contract by contract and corresponds to the non-cancellable period of a lease, together with both periods covered by an option to extend the lease which will be reasonably certainly exercised and periods covered by an option to terminate the lease which are certain not to be exercised.

The discount rates used by the Group correspond to the rates at which the Group companies would be able to subscribe a financial borrowing (incremental borrowing rate).

The Group opted for the simplified retrospective transition method which will entail accounting for the cumulative effect of initially applying the standard as an adjustment to the opening equity at January 1, 2019, considering that the asset relating to the right-of-use will be equal to the lease payments debt, adjusted for prepaid lease payments and lease incentives received from lessors. Moreover, the following simplification measures will be applied at the transition date:

- Contracts with a residual term under 12 months at January 1, 2019 will not give rise to an asset and a debt;
- A single discount rate will be used for a portfolio of leases with similar characteristics. The discount rates applied at the date of implementation will be based on the incremental borrowing rate by entity and by currency, taking into account the economic environment of each country. Moreover, on the transition date, the discount rates will be determined based on the residual term of the contracts.

The impacts of the first of application of IFRS 16 on the opening balance sheet will be as follows:

- The booking of additional rights-of-use and lease obligations, for an amount comprised between €17 and €19 million;
- The reclassification of prepaid lease payments as an increase to the rights-of-use.

Seasonality

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.

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 and fixed assets impairment, evaluation of deferred tax assets and estimates and judgement related to revenue recognition.

Revenues

Contracts with customers comprise multiple obligations such as: CAD/CAM equipment, CAD/CAM and PLM software, consumables and parts, 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 (called pilots) are not recognized separately from these, as they are an integral part to the equipment, allowing it to work: without the pilot, the equipment would be useless, and without the equipment, the pilot has no use either. However, specialized software (for instance, software for collection management, pattern-making, simulation), under perpetual license, usually installed on the clients' computers, sold separately from the equipment on a regular basis, are considered separate performance obligations.

The other obligations are considered as separate under IFRS 15 and are thus accounting for based on the following elements among others:

- Installation of equipment and specialized software is made in a few days, easy to implement, and does not modify their characteristics;
- Training is short-term and had no interdependence relationship with the other obligations;
- Consulting usually regards the optimization of clients' production and is very often sold separately to clients;
- Regarding maintenance, assistance and evolution online services are yearly contracts in which the Group's commitment is a stand-ready type, or an obligation to make future not-yet-planned versions of the software available. The solutions (equipment and software) are distinct from maintenance / assistance / evolution since they are entirely ready to work upon delivery and since maintenance / assistance / evolution services are not critical for the client in order to use the solution. Equipment is sold most often with one or two years of maintenance, and the client holds renewal options that are not discounted compared to the initial price for subscribing maintenance. Renewal options are thus not considered as significant rights that would require separate accounting under IFRS 15.

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.

Revenue from sales of equipment (including pilot software) is recognized when the control has been transferred to the purchaser. These conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.

Software sold as perpetual licenses is regarded as right-of-use licenses under IFRS 15, for which revenue is booked at a certain date, generally the time of installation of the software on the customer's computer (either by CD-ROM or downloading).

Revenue from subscription sales of software is spread over the duration of the customer's commitment.

Revenue from training and consulting is recognized based on the completion of hours or days of work performed by the teams.

Revenue from equipment and specialized software installation is recognized when these services are rendered.

Revenue from maintenance / assistance / evolution online contracts is spread linearly over the duration of the contracts, as they are 'stand-ready obligations'.

Equipment is designed, made and assembled by the Group from parts produced by a network of subcontractors. Lectra acts as principal in the sale of equipment insofar as parts only constitute inputs used in the manufacturing of finished goods sold to customers.

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).

Security ratio

The security ratio is defined by the Group as the percentage of annual fixed overhead costs covered by gross profit on recurring revenues.

Operating segments

Operating segment reporting is based directly on the Group's performance tracking and review systems. The operating segments presented in note 6 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the Group's 'chief operating decision maker'.

Operating segments refer to the major marketing regions that combine countries with similar economic characteristics in terms of type of product and service, customer type and distribution method. The regions concerned are: the Americas, Europe, Asia-Pacific, and the Rest of the World, where the company operates chiefly in North Africa, South Africa, Turkey, Israel, and the Middle East. These regions are involved in sales and the provision of services to their customers. They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, production, R&D, finance, legal affairs, human resources, information systems. All of these cross-divisional activities are reported as an additional operating segment referred to here as the 'Corporate' segment.

Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external customers; all inter-segment billings are excluded from this item. The gross profit margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include added value supplied by the Corporate segment. Consequently, for products or services supplied in full or in part by the Corporate segment, a percentage of consolidated gross profit is retained in the income computed for the Corporate segment in order to cover its costs. Since most of the Corporate segment's general overheads are fixed, its profit margin and consequently its income from operations depend mainly on the volume of business generated by marketing regions.

3. SCOPE OF CONSOLIDATION

At December 31, 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 the capital of Kubix Lab was made for an amount of €7.2 million:

- €3 million paid in cash 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 accounting has been finalized 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 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 and 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 and cash position of the Group).

Three sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At December 31, 2018, their combined revenues totaled €1.2 million, and their combined assets totaled €2.8 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 December 31, 2018.

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

4.1. Q4 2018

(in thousands of euros)	2018 Actual	2018 At 2017 exchange rates	2017 Actual	Changes 2018/2017 Actual	Changes 2018/2017 Like-for-like
	Three months ended December 31				
Revenues	74,963	74,368	71,489	+5%	+4%
Cost of goods sold	(21,187)	(21,154)	(20,042)	+6%	+6%
Gross profit	53,776	53,214	51,446	+5%	+3%
(in % of revenues)	71.7%	71.6%	72.0%	-0.3 points	-0.4 points
Research and development(1)	(5,398)	(5,398)	(5,122)	+5%	+5%
Selling, general and administrative expenses(1)	(36,399)	(36,458)	(36,102)	+1%	+1%
Income from operations	11,978	11,358	10,222	+17%	+11%
(in % of revenues)	16.0%	15.3%	14.3%	+1.7 points	+1.0 point
Income before tax	11,739	11,119	10,318	+14%	+8%
Income tax	(3,092)	na	(1,128)	174%	na
Net income	8,647	na	9,190	-6%	na
€ / $ average parity	*1.14*	*1.18*	*1.18*		

(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 €4,758,000 and 'Selling, general and administrative expenses' to €36,466,000.

4.2. FY 2018

(in thousands of euros)	2018 Actual	2018 At 2017 exchange rates	2017 Actual	Changes 2018/2017 Actual	Changes 2018/2017 Like-for-like
	Twelve months ended December 31				
Revenues	282,558	289,275	277,201	+2%	+4%
Cost of goods sold	(79,014)	(79,679)	(75,269)	+5%	+6%
Gross profit	203,544	209,596	201,932	+1%	+4%
(in % of revenues)	72.0%	72.5%	72.8%	-0.8 points	-0.3 points
Research and development(1)	(21,497)	(21,497)	(19,807)	+9%	+9%
Selling, general and administrative expenses(1)	(141,798)	(144,578)	(142,851)	-1%	+1%
Income from operations	40,249	43,522	39,274	+2%	+11%
(in % of revenues)	14.2%	15.0%	14.2%	0.0 point	+0.8 points
Income before tax	38,917	42,189	38,431	+1%	+10%
Income tax	(10,177)	na	(9,166)	+11%	na
Net income	28,740	na	29,264	-2%	na
€ / $ average parity	*1.18*	*1.13*	*1.13*		

(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 €17,690,000 and 'Selling, general and administrative expenses' to €144,968,000

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

5.1. Q4 2018

Revenues by region

(in thousands of euros)	Three Months Ended December 31						
	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	28,741	38%	28,808	31,005	43%	-7%	-7%
- France	4,310	6%	4,311	4,555	6%	-5%	-5%
Americas	20,280	27%	19,884	18,379	26%	+10%	+8%
Asia-Pacific	20,626	28%	20,382	17,332	24%	+19%	+18%
Other countries	5,315	7%	5,294	4,773	7%	+11%	+11%
Total	74,963	100%	74,368	71,489	100%	+5%	+4%
€ / $ average parity	*1.14*		*1.18*	*1.18*			

Revenues by type of business

(in thousands of euros)	Three Months Ended December 31						
	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
New CAD/CAM and PLM software licenses	3,082	4%	3,081	4,270	6%	-28%	-28%
CAD/CAM and PLM software evolution and online services contracts	9,598	13%	9,578	9,697	14%	-1%	-1%
CAD/CAM and PLM subscription contracts	181	0%	179	34	0%	ns	ns
CAD/CAM equipment and accompanying software	26,082	35%	25,694	23,929	33%	+9%	+7%
CAD/CAM equipment and accompanying software maintenance and online services contracts	13,973	19%	13,875	12,437	17%	+12%	+12%
Consumables and parts	18,149	24%	18,074	17,064	24%	+6%	+6%
Training and consulting services	3,253	4%	3,246	3,380	5%	-4%	-4%
Miscellaneous	645	1%	642	678	1%	-5%	-5%
Total	74,963	100%	74,368	71,489	100%	+5%	+4%
€ / $ average parity	*1.14*		*1.18*	*1.18*			

Revenues by nature

(in thousands of euros)	Three Months Ended December 31						
	2018			2017		Changes 2018/2017	
	Actual	%	At 2017 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales (1)	33,062	44%	32,663	32,257	45%	+2%	+1%
Recurring revenues (2), of which:	41,901	56%	41,705	39,232	55%	+7%	+6%
- Recurring contracts	23,752	32%	23,631	22,168	31%	+7%	+7%
- Consumables and parts	18,149	24%	18,074	17,064	24%	+6%	+6%
Total	74,963	100%	74,368	71,489	100%	+5%	+4%
€ / $ average parity	*1.14*		*1.18*	*1.18*			

(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. FY 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:	111,559	39%	111,968	117,050	42%	-5%	-4%
- France	16,538	6%	16,532	18,400	7%	-10%	-10%
Americas	76,146	27%	80,005	68,931	25%	+10%	+16%
Asia-Pacific	75,334	27%	77,556	72,098	26%	+4%	+8%
Other countries	19,519	7%	19,747	19,122	7%	+2%	+3%
Total	282,558	100%	289,275	277,201	100%	+2%	+4%
€ / $ average parity	*1.18*		*1.13*	*1.13*			

Twelve Months Ended December 31

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	13,902	5%	14,224	16,622	6%	-16%	-14%
CAD/CAM and PLM software evolution and online services contracts	37,577	13%	38,290	38,359	14%	-2%	0%
CAD/CAM and PLM subscription contracts	470	0%	476	53	0%	ns	ns
CAD/CAM equipment and accompanying software	93,840	33%	95,887	90,889	32%	+3%	+5%
CAD/CAM equipment and accompanying software maintenance and online services contracts	53,347	20%	54,719	49,975	18%	+7%	+9%
Consumables and parts	68,443	24%	70,401	65,757	24%	+4%	+7%
Training and consulting services	12,654	4%	12,916	13,241	5%	-4%	-2%
Miscellaneous	2,325	1%	2,363	2,305	1%	+1%	+3%
Total	282,558	100%	289,275	277,201	100%	+2%	+4%
€ / $ average parity	*1.18*		*1.13*	*1.13*			

Twelve Months Ended December 31

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)	122,721	43%	125,389	123,057	44%	0%	+2%
Recurring revenues (2), of which:	159,837	57%	163,886	154,144	56%	+4%	+6%
- Recurring contracts	91,394	33%	93,485	88,387	32%	+3%	+6%
- Consumables and spare parts	68,443	24%	70,401	65,757	24%	+4%	+7%
Total	282,558	100%	289,275	277,201	100%	+2%	+4%
€ / $ average parity	*1.18*		*1.13*	*1.13*			

Twelve Months Ended December 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	57,383	47%	59,037	56,206	46%	+2%	+5%
Automotive	47,385	39%	47,967	47,445	39%	0%	+1%
Furniture	12,805	10%	13,078	12,824	10%	0%	+2%
Other industries	5,148	4%	5,307	6,582	5%	-22%	-19%
Total	122,721	100%	125,389	123,057	100%	0%	+2%
€ / $ average parity	*1.18*		*1.13*	*1.13*			

Twelve Months Ended December 31

6. OPERATING SEGMENTS INFORMATION

Twelve months ended December 31, 2018 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	111,559	76,146	75,334	19,519	-	282,558
Income (loss) from operations	15,605	12,676	4,921	4,227	2,820	40,249

Twelve months ended December 31, 2017[1] (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	117,050	68,931	72,097	19,123	-	277,201
Income (loss) from operations	18,329	9,821	3,428	3,916	3,780	39,274

(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

Twelve months ended December 31, 2018 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	21,631	-	21,631
Proceeds from issuance of ordinary shares[1]	1,849	-	1,849
Sale and purchase of treasury shares[2]	(335)	-	(335)
Acquisition cost of companies purchased[3]	(7,102)	-	(7,102)
Dividends paid	(12,022)	-	(12,022)
Impact of currency variations – other	68	-	68
Change in cash position for the period	4,089	-	4,089
Cash position at December 31, 2017	98,134	-	98,134
Cash position at December 31, 2018	102,223	-	102,223
Change in cash position for the period	4,089	-	4,089

(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 December 31, 2018, was €21.6 million. This figure results from a combination of €28.8 million in cash flows provided by operating activities (including an increase in working capital requirement of €3.7 million, and an increase in other operating non-current assets of €5 million, corresponding to the part of the 2018 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA – see note 8 hereafter) and capital expenditures of €7.2 million.

The variation in working capital is explained as follows:

- +€0.1 million corresponding to the increase in trade accounts receivable (the variation in trade accounts receivable shown in the consolidated statement of cash flows includes 'Deferred revenues' in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues);
- +€4.9 million corresponding to the increase in inventories due to the increase in manufacturing activity, notably the launch of a new offer for the cutting room;
- −€6.9 million arising from the reimbursement in Q4 2018 of the outstanding balance of the 2014 research tax credit (see note 8 hereafter);
- +€2.2 million arising from the difference between the variable portion of salaries for the Group in respect of fiscal year 2017 paid mainly in 2018, and the one recognized in 2018 that will be paid in 2019;
- +€2.5 million arising from the decrease in trade accounts payable;
- +€0.9 million arising from the changes in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at December 31, 2018 was negative at €11 million. It comprised the current portion (€5.7 million) of the €17.9 million receivable 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.

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 Group now presents separately the current and non-current (to be repaid in over a year) part of the income tax receivable related to the French research tax credit. Consequently, the 2017 amounts have been restated accordingly.

The research tax credit (€8.4 million) and the competitiveness and employment tax credit (€1 million) for 2018 were accounted for but not received.

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

Thus, at December 31, 2018, Lectra SA held a €17.9 million receivable on the French tax administration (of which €12.2 classified within other non-current assets). 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 (€5 million), 2017 (€4.6 million), 2016 (€2.6 million) and 2015 (€5.7 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 received in October 2018 the reimbursement of the outstanding balance of €6.9 million in respect of the 2014 tax credit and should receive the reimbursement of the outstanding balance of these non-deducted tax credits as follows: 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 257,271 shares and sold 238,782 shares at an average price of €21.16 and €21.40 respectively under the liquidity agreement administered by Exane BNP Paribas.

At December 31, 2018, the company held 30,779 Lectra shares (i.e. 0.1% of the share capital) with an average purchase price of €18.20 entirely under the liquidity agreement.

10. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	December 31, 2018	December 31, 2017
Available cash	72,223	68,134
Cash equivalents	30,000	30,000
Borrowings and financial debts	-	-
Net cash	102,223	98,134

The Group has no borrowings or financial debts. Thus, net cash was equal the sum of available cash and cash equivalents.

11. FOREIGN EXCHANGE RISK

The Group’s currency risk management policy is unchanged relative to December 31, 2017.

In 2018, the average parity between the US dollar and the euro was $1.18/€1.

Exchange risk hedging instruments

Exchange risk hedging instruments at December 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 €0.6 million, intended to hedge existing balance sheet positions. Thus, the company has hedged almost all its balance sheet positions.

Moreover, the company has not hedged its exposure to currency rates for 2019.

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, 2018 exchange rates for the relevant currencies, in particular $1.15/€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 $1.10/€1) would mechanically increase 2018 annual revenues by approximately €4.6 million and annual income from operations by €3 million. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. $1.20/€1) would mechanically reduce annual revenues and income from operations by the same amounts.

The parity is $1.13/€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.