LECTRA

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR FIRST QUARTER 2019

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the first quarter ending March 31, 2019.

The Company markets and invoices its software both in the form of perpetual licenses with their associated maintenance contracts, and on a subscription basis, particularly for its Software-as-a-Service (SaaS) offers. To provide better comparability with prior years, the Company decided, starting at the beginning of fiscal year 2018, to include subscription software sales in the amount of orders for new systems, by multiplying the annual value of the corresponding contracts by 2.2. This coefficient enables calculation of the amount an order would represent, had it been sold as a perpetual license together with a maintenance contract. Revenues corresponding to orders for perpetual software licenses are recorded under "CAD/CAM and PLM software licenses"; revenues from software sold on a subscription basis are recorded under "CAD/CAM and PLM software subscription contracts".

Detailed comparisons between 2019 and 2018 are based on 2018 exchange rates ("like-for-like") unless otherwise stated.

1. SUMMARY OF OPERATIONS FOR Q1 2019

Positive impact of currency changes

With an average exchange rate of $1.14/€1 in Q1, the US dollar was up 8% compared to Q1 2018 ($1.23/€1), while the yuan strengthened by 2% against the euro. Currency changes thus mechanically increased revenues by €1.7 million (+3%) and income from operations by €1.1 million (+16%) at actual exchange rates compared to like-for-like figures.

Lower than expected orders for new systems

Macroeconomic and geopolitical conditions remained challenging throughout the first quarter. In many countries, fears of slower growth added to persisting uncertainty surrounding Brexit, the trade war conducted by the United States, and particularly the outcome of trade negotiations with China. This situation has led many companies, in all Lectra market sectors, to exercise greater caution, prompting them to delay their investment decisions.

In these circumstances, Q1 orders for new systems (€27.4 million) were 5% lower than in Q1 2018. At actual exchange rates, they decreased by 3%.

Orders for CAD/CAM and PLM software (€4.5 million) and for training and consulting (€3.2 million) increased by 15% and 5%, respectively. Orders for subscriptions, in particular for new Software-as-a-Service (SaaS) offers, accounted for 20% of the total amount of software orders in the quarter; their total annual value came to €0.4 million in Q1 (€0.1 million in Q1 2018).

The impact of customers' "wait-and-see" attitude was observed primarily in orders for equipment and accompanying software (€19.1 million), which were down 11% compared to Q1 2018.

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

Revenues amounted to €67 million, down 3% compared to Q1 2018 and stable at actual exchange rates.

Income from operations totaled €7.9 million, down 5% like-for-like, but up 10% at actual exchange rates. The operating margin was 11.8%, down 0.3 percentage points like-for-like, but up 1.1 percentage points at actual exchange rates.

Net income came to €5.7 million, up €0.3 million (+6%) at actual exchange rates.

Strong growth in free cash flow

Free cash flow amounted to €9.8 million (€2.5 million in Q1 2018).

2. CONSOLIDATED FINANCIAL STATEMENTS FOR Q1 2019

Revenues

Revenues totaled €67 million, down 3% like-for-like and stable at actual exchange rates.

Revenue distribution by product line and by geographical market is reported on an indicative basis within the additional information of this report, page 7.

Revenues from software licenses, equipment and non-recurring services

Revenues from software licenses, equipment and non-recurring services (€25.6 million) were down 14% like-for-like and 11% at actual exchange rates. They accounted for 38% of revenues (43% in 2018) and include mainly:

- CAD/CAM and PLM software licenses (€4 million), which increased by 5% and accounted for 6% of revenues (6% in 2018);
- Equipment and accompanying software (€18.1 million), which decreased by 18% and accounted for 27% of revenues (32% in 2018);
- Training and consulting (€3 million), which decreased by 7% and accounted for 5% of revenues (5% in 2018).

At March 31, 2019, the order backlog for software licenses, equipment, and training and consulting amounted to €23.4 million:

- The portion related to CAD/CAM and PLM software licenses (€1.6 million) does not include software sold on a subscription basis, and therefore cannot be compared to the figures for prior periods;
- The portion related to equipment and accompanying software, plus training and consulting (€21.8 million), increased by €1.3 million compared to December 31, 2018 like-for-like, and by €1.5 million at actual exchange rates. Compared with the order backlog at March 31, 2018, it decreased by €0.8 million like-for-like and by €0.2 million at actual exchange rates.

Revenues from recurring contracts, consumables and parts

Recurring revenues (€41.4 million) increased by 5% (+8% at actual exchange rates). They accounted for 62% of revenues (57% in 2018).

Revenues from recurring contracts, which represented 35% of revenues, amounted to €23.7 million, a 4% increase:

- CAD/CAM and PLM software subscription contracts were €0.2 million (following a negligible amount in 2018);
- CAD/CAM and PLM software maintenance contracts (€9.6 million), stable compared to 2018, represented 14% of revenues;
- Equipment and accompanying software maintenance contracts (€14 million), up 6%, represented 21% of revenues.

In parallel, revenues from consumables and parts (€17.6 million) increased by 7% and represented 26% of revenues (24% in Q1 2018).

Gross profit

Gross profit totaled €49.4 million, stable compared to 2018.

The increase in gross profit margin makes up for the decline in revenues. The gross profit margin came to 73.7%, up 1.9 percentage points relative to 2018 (+2.3 percentage points at actual exchange rates). This increase stems primarily from the evolution of the product mix, and specifically from the greater share of recurring revenues.

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

Overhead costs

Total overhead costs were €41.5 million, up 1% compared to 2018. The breakdown is as follows:

- €37.5 million in fixed overhead costs (+1%);
- €4 million in variable costs (stable).

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

Research and development costs (€7.9 million) are fully expensed in the period, included in fixed overhead costs, and represented 11.8% of revenues (€7.8 million and 11.6% for 2018). After deducting the research tax credit applicable in France and grants received, net research and development costs amounted to €5.5 million (€5.6 million in 2018).

Income from operations and net income

Income from operations totaled €7.9 million, a decrease of €0.4 million (-5%) like-for-like, but an increase of €0.7 million (+10%) at actual exchange rates compared to 2018.

The operating margin was 11.8%, down 0.3 percentage points like-for-like, but up 1.1 percentage points at actual exchange rates.

Financial income and expenses represented a net charge of €0.1 million. Foreign exchange gains and losses were negligible.

After an income tax expense of €2 million, net income amounted to €5.7 million, up €0.3 million (+6%) at actual exchange rates.

Net earnings per share were €0.18 on basic capital and on diluted capital (€0.17 in Q1 2018).

Free cash flow

Free cash flow totaled €9.8 million, compared with €2.5 million for Q1 2018.

This strong increase resulted from a €5.2 million reduction in working capital requirement in Q1 2019, whereas the working capital requirement had increased by €0.8 million in Q1 2018.

Shareholders' equity

At March 31, 2019, consolidated shareholders' equity came to €177.6 million (€170.4 million at December 31, 2018).

The Company is debt-free. Cash and cash equivalents, as well as net cash position, totaled €113.5 million (€102.2 million at December 31, 2018).

Subject to approval by the Shareholders' Meeting of April 30, 2019, shareholders' equity, cash and cash equivalents and net cash will be reduced by the dividend amount declared in respect of FY 2018 (€12.8 million, corresponding to €0.40 per share), to be paid on May 7.

The working capital requirement was a negative €16.7 million. It comprised the current portion (€5.7 million) of the €19.7 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 carried on the balance sheet under other non-current assets (see note 6 in the notes to this report). When 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.

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in share capital

At March 31, 2019, the share capital came to €31,968,994, divided into 31,968,994 shares with a par value of €1.00.

Share capital increased by €122,237 (with a total share premium of €742,760) due to the creation of 122,237 shares since January 1, 2019, resulting from the exercise of stock options.

Main shareholders

No crossing of statutory thresholds has been reported to the Company since January 1, 2019.

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 March 31, 2019, the Company held 0.05% of its own shares in treasury, within the framework of the liquidity agreement contracted with Exane BNP Paribas.

Share price performance and trading volumes

The Company's share price at March 31, 2019, was €21.55, up 19% compared to December 31, 2018 (€18.18). During Q1, it reached a low of €17.84 on January 4 and a high of €24.00 on March 13.

The CAC 40 index, CAC All-Tradable index and the CAC Mid & Small index increased respectively by 13%, 12% and 11% for the first three months of 2019.

According to Bloomberg, 3.9 million shares were traded on all platforms in Q1 2019 (6.5 million in Q1 2018), including 33% on Euronext.

In its press release of January 8, 2019, Lectra confirmed that it is eligible for inclusion in French SME ("PEA-PME") equity savings plans. As a consequence, investment in Lectra shares can be made through PEA-PME savings accounts, a scheme specifically applicable to investments in small and mid-cap companies, benefiting from the same tax advantages as the traditional Equity Savings Plan (PEA).

4. SIGNIFICANT POST-CLOSING EVENTS

No significant event has occurred since March 31, 2019.

5. FINANCIAL CALENDAR

The 2018 Financial Report and 2018 Annual Report were published on Lectra's website on March 29.

The annual Shareholders' Meeting will be held on April 30, 2019.

The first-half 2019 financial results will be published on July 29, after the close of trading on Euronext Paris.

6. BUSINESS TRENDS AND OUTLOOK

In its 2018 Financial Report and its 2018 Annual Report, to which readers are invited to refer, the Company reported its long-term vision and its 2019 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.

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.

At this point in time, these objectives need not be revised. The main uncertainty concerns the level of orders for new systems, which could continue to be affected negatively by an uncertain macroeconomic, geopolitical and monetary environment, and by a slowdown in global economic growth.

The new products launched in 2018 and those released from 2019 onwards should make an ever-increasing contribution to revenue growth.

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

The Board of Directors

April 29, 2019

ADDITIONAL INFORMATION

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Orders for new systems by type of business

	Three Months Ended March 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
CAD/CAM and PLM software licenses, of which :	4 466	16%	4 429	3 836	14%	+16%	+15%
- Perpetual licenses	3 580	13%	3 558	3 665	13%	-2%	-3%
- Licenses in SaaS mode	886	3%	872	170	1%	+420%	+411%
Equipment and accompanying software	19 108	70%	18 480	20 715	74%	-8%	-11%
Training and consulting services	3 247	12%	3 176	3 036	11%	+7%	+5%
Miscellaneous	582	2%	576	583	2%	0%	-1%
Total	27 403	100%	26 661	28 170	100%	-3%	-5%
€ / $ average parity	*1.14*		*1.23*	*1.23*			

BREAKDOWN OF REVENUES – LIKE-FOR-LIKE

Revenue distribution by geographical market is reported on an indicative basis. Trends for the fiscal year cannot be extrapolated based on one single quarter.

Revenues by region

	Three Months Ended March 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	27,980	42%	28,023	28,358	42%	-1%	-1%
- France	4,812	7%	4,814	4,281	6%	+12%	+12%
Americas	16,100	24%	15,102	16,718	25%	-4%	-10%
Asia-Pacific	16,848	25%	16,112	18,119	27%	-7%	-11%
Other countries	6,068	9%	6,090	4,003	6%	+52%	+52%
Total	66,997	100%	65,327	67,198	100%	0%	-3%
€ / $ average parity	*1.14*		*1.23*	*1.23*			

Revenues by type of business

	Three Months Ended March 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Revenues from software licenses, equipment and non recurring services, of which:	25,626	38%	24,924	28,889	43%	-11%	-14%
- CAD/CAM and PLM software licenses	3,952	6%	3,923	3,723	6%	+6%	+5%
- Equipment and accompanying software	18,054	27%	17,439	21,354	32%	-15%	-18%
- Training and consulting services	3,038	5%	2,987	3,229	5%	-6%	-7%
- Miscellaneous	582	1%	576	583	1%	0%	-1%
Recurring revenues, of which:	41,371	62%	40,403	38,309	57%	+8%	+5%
- CAD/CAM and PLM software subscription contracts	203	0%	198	64	0%	+216%	+207%
- CAD/CAM and PLM software maintenance contracts	9,551	14%	9,422	9,376	14%	+2%	0%
- Equipment and accompanying software maintenance contracts	13,974	21%	13,578	12,796	19%	+9%	+6%
- Consumables and spare parts	17,642	26%	17,205	16,072	24%	+10%	+7%
Total	66,997	100%	65,327	67,198	100%	0%	-3%
€ / $ average parity	*1.14*		*1.23*	*1.23*			

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

	Three months ended March 31				
	2019 (1)		2018	Changes 2019/2018	
(in thousands of euros)	Actual	At 2018 exchange rates	Actual	Actual	Like-for-like
Revenues	66,997	65,327	67,198	0%	-3%
Cost of goods sold	(17,604)	(17,455)	(19,216)	-8%	-9%
Gross profit	49,392	47,872	47,983	+3%	0%
(in % of revenues)	73.7%	73.3%	71.4%	+2.3 points	+1.9 points
Research and development	(5,499)	(5,499)	(5,589)	-2%	-2%
Selling, general and administrative expenses	(35,995)	(35,564)	(35,218)	+2%	+1%
Income from operations	7,898	6,809	7,176	+10%	-5%
(in % of revenues)	11.8%	10.4%	10.7%	+1.1 points	-0.3 points
Income before tax	7,731	6,642	6,865	+13%	-3%
Income tax	(1,986)	na	(1,467)	+35%	na
Net income	5,745	na	5,399	+6%	na
€ / $ average parity	*1.14*	*1.23*	*1.23*		

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 to this report hereafter describes the impact of the new standard on the Group's financial statements.

Company Certification of the First Quarter 2019 Report

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

Paris, April 29, 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	March 31, 2019 (1)	December 31, 2018	March 31, 2018
Goodwill	39,696	39,473	38,858
Other intangible assets	3,886	3,688	3,403
Leasing rights-of-use	17,587	-	-
Property, plant and equipment	25,862	26,347	25,098
Other non-current assets (2)	16,743	14,425	17,403
Deferred tax assets	8,861	9,194	9,423
Total non-current assets	112,635	93,127	94,185
Inventories	35,397	34,326	33,972
Trade accounts receivable	48,400	58,564	50,752
Other current assets (2)	17,320	15,447	16,991
Cash and cash equivalents	113,518	102,223	93,565
Total current assets	214,635	210,560	195,280
Total assets	**327,270**	**303,687**	**289,464**

EQUITY AND LIABILITIES

(in thousands of euros)	March 31, 2019 (1)	December 31, 2018	March 31, 2018
Share capital	31,969	31,847	31,646
Share premium	14,586	13,843	12,635
Treasury shares	(368)	(560)	(516)
Currency translation adjustments	(9,311)	(9,554)	(10,060)
Retained earnings and net income	140,763	134,802	123,037
Total equity	177,638	170,377	156,741
Retirement benefit obligations	10,019	9,823	9,681
Non-current lease liabilities	13,197	-	-
Borrowings, non-current portion	-	-	-
Total non-current liabilities	23,216	9,823	9,681
Trade and other current payables	57,196	59,664	58,793
Deferred revenues	56,850	56,225	54,477
Current income tax liabilities	3,764	3,488	6,074
Current lease liabilities	4,727	-	-
Borrowings, current portion	-	-	-
Provisions for other liabilities and charges	3,879	4,110	3,698
Total current liabilities	126,416	123,487	123,042
Total equity and liabilities	**327,270**	**303,687**	**289,464**

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

(2) Since December 31, 2018, the Group presents separately the current and non-current part of the income tax receivable related to the French research tax credit. Consequently, the March 31, 2018 amounts have been restated accordingly: an amount of €15.1 million was reclassified, from 'Other current assets' (which amounted to €32.1 million) to 'Other non-current assets' (which amounted to €2.3 million).

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended March 31, 2019 (1)	Three months ended March 31, 2018
Revenues	66,997	67,198
Cost of goods sold	(17,604)	(19,216)
Gross profit	49,392	47,983
Research and development	(5,499)	(5,589)
Selling, general and administrative expenses	(35,995)	(35,218)
Income from operations	7,898	7,176
Financial income	49	21
Financial expenses	(180)	(103)
Foreign exchange income (loss)	(37)	(229)
Income before tax	7,731	6,865
Income tax	(1,986)	(1,467)
Net income	**5,745**	**5,399**

(in euros)		
Earnings per share:		
- basic	0.18	0.17
- diluted	0.18	0.17
Shares used in calculating earnings per share		
- basic	31,891,782	31,587,792
- diluted	32,374,347	32,363,230

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended March 31, 2019 (1)	Three months ended March 31, 2018
Net income	5,745	5,399
Currency translation adjustments	161	(148)
Tax effect	82	(40)
Other comprehensive income to be reclassified in net income	243	(188)
Remeasurement of the net liability arising from defined benefits pension plans	-	-
Tax effect	-	-
Other comprehensive income not to be reclassified in net income	0	0
Total other comprehensive income	243	(188)
Comprehensive income	**5,988**	**5,211**

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Three months ended March 31, 2019 [(1)]	Three months ended March 31, 2018
I - OPERATING ACTIVITIES		
Net income	5,745	5,399
Net depreciation, amortization and provisions [(1)]	3,040	1,824
Non-cash operating expenses	97	350
Loss (profit) on sale of fixed assets	14	(3)
Changes in deferred income taxes	476	(249)
Changes in inventories	(1,213)	(3,221)
Changes in trade accounts receivable	10,666	6,127
Changes in other current assets and liabilities [(2)]	(4,207)	(3,700)
Changes in other operating non-current assets [(2)]	(1,818)	(2,299)
Net cash provided by (used in) operating activities	12,800	4,228
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(523)	(380)
Purchases of property, plant and equipment	(509)	(1,555)
Proceeds from sales of intangible and tangible assets	-	5
Acquisition cost of companies purchased [(3)]	-	(7,102)
Purchases of financial assets [(4)]	(1,785)	(1,354)
Proceeds from sales of financial assets [(4)]	1,285	1,576
Net cash provided by (used in) investing activities	(1,532)	(8,810)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	865	439
Purchases of treasury shares	(1,272)	(1,573)
Sales of treasury shares	1,570	1,350
Repayment of lease liabilities [(1)]	(1,490)	-
Net cash provided by (used in) financing activities	(327)	216
Increase (decrease) in cash and cash equivalents	**10,941**	**(4,366)**
Cash and cash equivalents at opening	102,223	98,134
Increase (decrease) in cash and cash equivalents	10,941	(4,366)
Effect of changes in foreign exchange rates	354	(203)
Cash and cash equivalents at closing	113,518	93,565
Net cash provided by (used in) operating activities	12,800	4,228
+ Net cash provided by (used in) investing activities	(1,532)	(8,810)
- Acquisition cost of companies purchased	-	7,102
- Repayment of lease liabilities [(1)]	(1,490)	-
Free cash flow	9,778	2,520
Income tax (paid) / reimbursed, net	(429)	(433)
Interest (paid) on lease liabilities	(22)	-
Interest (paid)	-	-

(1) *The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.*

(2) *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 March 31, 2018 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 a negative €6 million.*

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

(4) *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, 2018	31,571,096	1.00	31,571	12,270	(298)	(9,872)	117,538	151,209
Net income							5,399	5,399
Other comprehensive income						(188)	-	(188)
Comprehensive income						(188)	5,399	5,211
Exercised stock options	74,708	1.00	75	364				439
Fair value of stock options							102	102
Sale (purchase) of treasury shares					(218)			(218)
Profit (loss) on treasury shares							(3)	(3)
Balance at March 31, 2018	31,645,804	1.00	31,646	12,635	(516)	(10,060)	123,037	156,741
Balance at January 1, 2018	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
Net income							5,745	5,745
Other comprehensive income						243	-	243
Comprehensive income						243	5,745	5,988
Exercised stock options	122,237	1.00	122	743				865
Fair value of stock options							145	145
Sale (purchase) of treasury shares					192			192
Profit (loss) on treasury shares							71	71
Balance at March 31, 2019 (1)	**31,968,994**	**1.00**	**31,969**	**14,586**	**(368)**	**(9,311)**	**140,763**	**177,638**

(1) *The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT MARCH 31, 2019

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 Paris 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 software licenses, equipment and non-recurring services, 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 and consulting. The Group also sells consumables and parts for its equipement.

People

Lectra's strength lies in the skills and experience of nearly 1,730 employees worldwide: nearly 860 in France and 870 in the sales and services subsidiaries. Thanks to Lectra's global presence the Group is geographically close to its customers, wherever they are in the world.

2. SUMMARY OF ACCOUNTING RULES AND METHODS

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:

http://ec.europa.eu/finance/company-reporting/ifrs-financial-statements/index_en.htm

The condensed consolidated financial statements at March 31, 2019, have been prepared in accordance with IAS 34 – Interim Financial Statements. They do not comprise all of the financial disclosures required in the complete financial statements and should be read in conjunction with the Group's consolidated financial statements and corresponding notes for the fiscal year 2018, available on lectra.com.

The consolidated financial statements have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2018 financial statements, with the exception of the IFRS 16 standard presented below. They have been prepared under the responsibility of the Board of Directors at its meeting of April 29, 2019. Financial statements at March 31, 2019 and 2018 have not been reviewed by the Statutory Auditors.

The Group has not early adopted any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2019.

Implementation of IFRS 16 – *Leases*

The Group applies, 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 then, 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 are now 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 uses 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 entails 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 is equal to the lease payments debt, adjusted for prepaid lease payments and lease incentives received from lessors. Moreover, the following simplification measures have been applied at the transition date:

- Contracts with a residual term under 12 months at January 1, 2019 did not give rise to an asset and a debt;
- A single discount rate was used for a portfolio of leases with similar characteristics. The discount rates applied at the date of implementation were 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 were determined based on the residual term of the contracts.

The main impacts of the first of application of IFRS 16 on the opening statement of financial position are as follows:

- The booking of additional rights-of-use and lease obligations, for an amount of €19.1 million;
- The reclassification of prepaid lease payments as an increase to the rights-of-use, for an amount of €0.2 million;
- The cancellation of deferred rent (corresponding to past rent-free periods), as a decrease to the rights-of-use, for an amount of €0.5 million.

The impact of the standard’s application is negligible on the income statement. In order to maintain comparability for the free cash flow with prior periods, it has been restated for the amount of repayment of lease liabilities.

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.

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 of software and equipment, these 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 software and equipment maintenance 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.

The French research tax credit *(crédit d'impôt recherche)*, 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), and minus repayments of lease liabilities according to IFRS 16.

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 4 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, Northern and Eastern Europe and Middle East, Southern Europe and North Africa, and Asia-Pacific. These regions are involved in sales and the provision of services to their customers. They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, production, R&D, finance, legal affairs, human resources, information systems. All of these cross-divisional activities are reported as an additional operating segment referred to here as the 'Corporate' segment.

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

3. SCOPE OF CONSOLIDATION

At March 31, 2019, the Group's scope of consolidation comprised the parent company, Lectra SA, together with 29 fully-consolidated companies.

In January 2018, the Group had purchased the Italian company Kubix Lab. The entire acquisition of the capital of Kubix Lab had been 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 was 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 the first quarter of 2019, or 2018.

Three sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At March 31, 2019, their combined revenues totaled €0.3 million, and their combined assets totaled €3.1 million. They had no financial debt outside of the Group. Most of the sales activity of these subsidiaries is billed directly by Lectra SA.

Transactions with these subsidiaries mainly concern purchases from Lectra SA for the purposes of their local operations, or charges and commissions billed to Lectra SA in order to cover their overheads when they act as agents. The amount concerned by these transactions was not significant at March 31, 2019.

4. OPERATING SEGMENTS INFORMATION

Three months ended March 31, 2019[(1)] (in thousands of euros)	Northern Europe[(2)]	Southern Europe[(3)]	Americas	Asia-Pacific	Corporate	Total
Revenues	13,723	19,141	16,100	18,033	-	66,997
Income (loss) from operations	1,228	3,492	2,220	1,321	(363)	7,898

Three months ended March 31, 2018[(1)] (in thousands of euros)	Northern Europe[(2)]	Southern Europe[(3)]	Americas	Asia-Pacific	Corporate	Total
Revenues	13,143	18,424	16,718	18,913	-	67,198
Income (loss) from operations	1,196	3,334	2,446	1,310	(1,110)	7,176

(1) Following the new organization into four main regions in January 2019, operating segments have been reviewed, and the 2018 amounts restated accordingly.

(2) This segment covers the following regions: Germany and Eastern Europe, United Kingdom, Benelux, Scandinavia, Baltic countries, Turkey and Middle East.

(3) This segment covers the following regions: France, Italy, Spain, Portugal and North Africa.

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.

5. CONSOLIDATED CASH FLOW SUMMARY

Three months ended March 31, 2019 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	9,778	-	9,778
Proceeds from issuance of ordinary shares[(1)]	865	-	865
Sale and purchase of treasury shares[(2)]	298	-	298
Impact of currency variations – other	354	-	354
Change in cash position for the period	11,295	-	11,295
Cash position at December 31, 2018	102,223	-	102,223
Cash position at March 31, 2019	113,518	-	113,518
Change in cash position for the period	11,295	-	11,295

(1) Resulting solely from the exercise of stock options.

(2) Carried out solely under the liquidity agreement administered by Exane BNP Paribas (see note 7).

Free cash flow at March 31, 2019, was €9.8 million. This figure results from a combination of €12.8 million in cash flows provided by operating activities (including a decrease in working capital requirement of €5.2 million) and capital expenditures of €1.5 million. The cash flows provided by operating activities also comprise an increase in other operating non-current assets of €1.8 million (corresponding to the part of the Q1 2019 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA – see note 6 hereafter). Finally, in order to ensure comparability of published free cash flows, the repayment of lease liabilities (according to IFRS 16), for €1.5 million, was taken into account.

The variation in working capital is explained as follows:

- −€10.7 million corresponding to the decrease in trade accounts receivable following the cash receipt of a significant portion of the recurring contracts at the beginning of the year, usually yearly in advance (the variation in trade accounts receivable shown in the consolidated statement of cash flows includes 'Deferred revenues' in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues);
- +€1.2 million corresponding to the increase in inventories;
- +€4.2 million arising from the difference between the variable portion of salaries for the Group in respect of fiscal year 2018 paid mainly in 2019, and the one recognized in Q1 2019 that will be paid in 2020;
- +€0.1 million arising from the changes in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at March 31, 2019 was negative at €16.7 million. It comprised the current portion (€5.7 million) of the €19.7 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.

6. RESEARCH TAX CREDIT – COMPETITIVENESS AND EMPLOYMENT TAX CREDIT

When the research tax credit, and the competitiveness and employment tax credit (before January 1, 2019), 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.

The research tax credit (€2.2 million) for Q1 2019 were accounted for but not received.

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

Thus, at March 31, 2019, Lectra SA held a €19.7 million receivable on the French tax administration (of which €14 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 2019 (€1.8 million), 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 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), 2022 (in respect of the 2018 tax credit) and 2023 (in respect of the 2019 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 credit 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.

7. TREASURY SHARES

Since January 1, 2019, the company has purchased 60,091 shares and sold 74,417 shares at an average price of €21.17 and €21.09 respectively under the liquidity agreement administered by Exane BNP Paribas.

At March 31, 2019, the company held 16,453 Lectra shares (i.e. 0.05% of the share capital) with an average purchase price of €22.40 entirely under the liquidity agreement.

8. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	March 31, 2019	December 31, 2018
Available cash	83,518	72,223
Cash equivalents	30,000	30,000
Borrowings and financial debts	-	-
Net cash	113,518	102,223

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

Lease liabilities, accounted for under IFRS 16, are not considered as financial debts here.

9. FOREIGN EXCHANGE RISK

The Group’s currency risk management policy is unchanged relative to December 31, 2018.

In Q1 2019, the average parity between the US dollar and the euro was $1.14/€1.

Exchange risk hedging instruments

Exchange risk hedging instruments at March 31, 2019 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of €3.5 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 the rest of 2019.

10. 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 2019 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 $1.12/€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.