

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

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the second quarter and first half of 2019, ending June 30, 2019. Financial statements for the first half have been subject to a limited review by the Statutory Auditors; statements relating solely to the second quarter have not been reviewed.

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

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".

The detailed tables and like-for-like changes in orders for new systems, revenues, and income statements for the second quarter and first half of 2019 are reported in the additional information of this report, page 7.

1. SUMMARY OF OPERATIONS FOR Q2 2019

With an average exchange rate of \$1.12/€1 in Q2, the US dollar was up 6% compared to Q2 2018 (\$1.19/€1), while the yuan declined by 1% against the euro.

Currency changes thus mechanically increased revenues by €1.2 million (+2%) and income from operations by €0.7 million (+8%) at actual exchange rates compared to like-for-like figures.

Significant decline in orders for new systems

The second quarter was marked by the intensification of the trade wars between the United States and China and between the United States and Mexico, alongside fears of slower growth. This situation has led more and more companies, in all Lectra market sectors, to exercise greater caution, prompting them to reduce or delay their investment decisions.

In these circumstances, orders for new systems (€26.5 million) were 22% lower than in Q2 2018. At actual exchange rates, they decreased by 21%.

The impact of customers' "wait-and-see" attitude was observed in all product lines: equipment and accompanying software (€19.7 million) decreased by 23%, CAD/CAM and PLM software (€3.8 million) by 14%, and training and consulting (€2.5 million) by 27%.

Decline in revenues and income from operations

Revenues came to €70.2 million, down 6% compared to Q2 2018 (-4% at actual exchange rates).

Income from operations amounted to €9.5 million, down 11% like-for-like and 3% at actual exchange rates. The operating margin was 13.6%, down 0.8 percentage points like-for-like, but up 0.1 percentage points at actual exchange rates.

Net income amounted to €6.9 million, stable at actual exchange rates compared to Q2 2018.

Free cash flow came to €2.7 million (€5 million in Q2 2018).

2. CONSOLIDATED FINANCIAL STATEMENTS FOR FIRST HALF 2019

Positive impact of currency changes

With an average exchange rate of \$1.13/€1 in H1, the US dollar was up 7% compared to H1 2018 (\$1.21/€1), while the yuan strengthened by 1% against the euro.

Currency changes thus mechanically increased revenues by €2.9 million (+2%) and income from operations by €1.8 million (+12%) at actual exchange rates compared to like-for-like figures.

Orders for new systems

The first half was marked by a very strong "wait-and-see" attitude by many companies, particularly in the fashion and automotive markets, in a context of uncertainty and apprehension. This adverse climate is primarily the consequence of the trade wars between the United States, on the one hand, and Mexico, China and Europe, on the other, and the slowing of the automotive sector, particularly in China.

Orders for new systems amounted to €53.9 million, down 15% compared to H1 2018: new CAD/CAM and PLM software licenses were stable, equipment and accompanying software decreased by 18%, and training and consulting by 12%. Orders for subscriptions, in particular for new Software-as-a-Service (SaaS) offers, accounted for 18% of the total amount of software orders in H1. Their total annual value amounted to €0.7 million (€0.5 million in H1 2018).

Geographically, the situation is highly contrasted: orders for new systems increased by 27% in Asia-Pacific (despite a decrease of 17% in China), but decreased by 19% in Europe and 60% in the Americas. They increased by 38% in the rest of the world (including Northern Africa, South Africa, Turkey, and the Middle East).

Orders for new systems were down 17% in the fashion market and 25% in the automotive market, but they were up 53% in the furniture market. In the other industries, they decreased by 31%. These market sectors respectively accounted for 51%, 29%, 16% and 4% of orders for new systems in H1.

Revenues

Revenues totaled €137.2 million, down 4% like-for-like and 2% at actual exchange rates.

Revenues increased by 4% in Asia-Pacific, decreased by 5% in Europe and 19% in the Americas, and increased by 32% in the rest of the world. These regions respectively accounted for 28%, 40% (including 7% for France), 24% and 9% of total revenues.

Revenues from software licenses, equipment and non-recurring services

Revenues from software licenses, equipment and non-recurring services (€53.5 million) decreased by 16%. They accounted for 39% of total revenues (44% in 2018) and include mainly:

- CAD/CAM and PLM software licenses (€7.4 million), which decreased by 6% and accounted for 5% of total revenues (6% in 2018);
- Equipment and accompanying software (€38.7 million), which decreased by 19% and accounted for 28% of total revenues (33% in 2018);
- Training and consulting revenues (€6.3 million), which decreased by 6% and accounted for 5% of total revenues (5% in 2018).

At June 30, 2019, the order backlog for software licenses, equipment, and training and consulting amounted to €21.2 million:

- The portion related to CAD/CAM and PLM software licenses (€1.3 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 (€19.9 million), decreased by €0.4 million like-for-like and by €0.3 million at actual exchange rates compared to December 31, 2018. Compared with the order backlog at June 30, 2018, it decreased by €2.5 million like-for-like and €2.4 million at actual exchange rates.

Revenues from recurring contracts, consumables and parts

Recurring revenues (€83.7 million) increased by 5% (+7% at actual exchange rates). They accounted for 61% of total revenues (56% in 2018).

Revenues from recurring contracts—which represented 35% of total revenues—amounted to €47.9 million, a 5% increase:

- CAD/CAM and PLM software subscription contracts came to €0.4 million (€0.2 million in 2018);
- CAD/CAM and PLM software maintenance contracts (€19.1 million), up 2%, represented 14% of revenues;
- Equipment and accompanying software maintenance contracts (€28.4 million), up 7%, represented 21% of revenues.

In parallel, revenues from consumables and parts (€35.8 million) increased by 5% and represented 26% of total revenues (24% in H1 2018).

Gross profit

Gross profit amounted to €100.1 million, down €2.8 million compared to 2018.

The overall gross profit margin was 73%, up 1 percentage point relative to H1 2018 (+1.4 percentage points at actual exchange rates), mainly due to the evolution of the product mix.

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

Overhead costs

Total overhead costs were €82.7 million, down 2% compared to 2018. The breakdown is as follows:

- €75.3 million in fixed overhead costs (stable);
- €7.4 million in variable costs (-16%).

At actual exchange rates, total overhead costs fell by 1%.

Research and development costs (€16.1 million), which are fully expensed in the period and included in fixed overhead costs, represented 11.7% of revenues (€15.6 million and 11.1% of revenues for H1 2018). After deducting the research tax credit applicable in France, and grants received, net research and development costs amounted to €11.1 million (€11.2 million in 2018).

Income from operations and net income

Income from operations totaled €17.4 million, a decrease of €1.4 million (-8%) like-for-like, but an increase of €0.4 million (+2%) at actual exchange rates compared to H1 2018.

The operating margin was 12.7%, down 0.5 percentage points like-for-like, but up 0.6 percentage points at actual exchange rates.

Financial income and expenses represented a net charge of €0.2 million. Foreign exchange gains and losses generated a net loss of €0.4 million.

After an income tax expense of €4.2 million, net income amounted to €12.6 million, up €0.4 million (+3%) at actual exchange rates.

Net earnings per share came to €0.40 on basic capital and €0.39 on diluted capital (respectively €0.39 and €0.38 in H1 2018).

Free cash flow

Free cash flow totaled €12.5 million, compared to €7.5 million for H1 2018.

This increase resulted mainly from a €2.4 million reduction in working capital requirement in H1 2019, whereas the working capital requirement had increased by €1.6 million in H1 2018.

Shareholders' equity

At June 30, 2019, consolidated shareholders' equity amounted to €172 million (€170.4 million at December 31, 2018).

The Company is debt-free. Cash and cash equivalents, as well as net cash position, totaled €104 million (€102.2 million at December 31, 2018), after payment on May 7 of the dividend of €12.8 million (€0.40 per share) declared in respect of FY 2018.

The working capital requirement was a negative €14.1 million. It comprised the current portion (€5.7 million) of the €21.4 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 in 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 June 30, 2019, the share capital totaled €32,025,967, divided into 32,025,967 shares with a par value of €1.00.

Share capital increased by €179,210 (with a total share premium of €1,366,782) due to the creation of 179,210 shares since January 1, 2019, resulting from the exercise of stock options.

Main shareholders

No crossing of statutory thresholds was 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 June 30, 2019, the Company held 0.05% of its own shares in treasury shares, solely within the framework of the liquidity agreement contracted with Exane BNP Paribas.

Share price performance and trading volumes

The Company's share price at June 30, 2019 was €22.55, up 24% compared to December 31, 2018 (€18.18). In H1, it reached a low of €17.84 on January 4 and a high of €24.00 on March 13.

Over the first six months of 2019, the CAC 40 index and the CAC Mid & Small index rose by 17% and 14%, respectively.

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

6.9 million shares were traded on Euronext and other trading platforms in H1 2019, which is 32% below the level of H1 2018. Euronext accounted for 33% of shares traded in H1 2019, compared with 28% a year before.

4. SIGNIFICANT POST-CLOSING EVENTS SINCE JUNE 30, 2019

On July 15, 2019, the Company announced the acquisition of the Belgian company Retviews (see press release dated July 15, 2019).

5. FINANCIAL CALENDAR

The Q3 2019 financial results will be published on October 30, after the close of trading on Euronext Paris.

6. BUSINESS TRENDS AND OUTLOOK

In its February 12, 2019 Financial Report and its 2018 Annual Report, to which readers are invited to refer, the Company reported its long-term vision and its 2019 outlook.

Lectra entered 2019 with a particularly robust balance sheet and operating fundamentals, a new organization of its subsidiaries, and a strengthened Executive Committee. The Company 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. They are being rolled out progressively and will be available worldwide by the end of 2019.

2019 outlook revised downward

At the start of the year, the Company set objectives of achieving revenue growth of 3% to 7% in 2019, like-for-like, with growth in income from operations before non-recurring items down 4% in the low assumption and up 4% in the high assumption.

The shortfall in orders for new systems in the first half of the year relative to the Company's expectations will not allow the Company to achieve its objectives in 2019, especially as the current weak level of orders could continue. In this context, the Company now anticipates a decline of 1% to 5% in revenues and 4% to 14% in income from operations before non-recurring items, like-for-like.

On the date of this report, visibility remains very limited. Nevertheless, an improvement in the business climate, particularly in the event of agreements in the trade disputes between the United States and China, and between the United States and Mexico, could result in a rebound in investments by the Company's customers.

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

The Board of Directors

July 29, 2019

ADDITIONAL INFORMATION – SECOND QUARTER 2019

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Orders of new system sales by type of business

(in thousands of euros)	Three Months Ended June 30						
	2019		At 2018 exchange rates	2018		Changes 2019/2018	
	Actual	%		Actual	%	Actual	Like-for-like
CAD/CAM and PLM software licenses, of which :	3,775	14%	3,738	4,372	13%	-14%	-14%
- Perpetual licenses	3,202	12%	3,164	3,411	10%	-6%	-7%
- Licenses in SaaS mode ⁽¹⁾	573	2%	574	961	3%	-40%	-40%
Equipment and accompanying software	19,744	74%	19,325	25,135	75%	-21%	-23%
Training and consulting services	2,520	10%	2,497	3,430	10%	-27%	-27%
Miscellaneous	464	2%	463	511	2%	-9%	-9%
Total	26,504	100%	26,023	33,449	100%	-21%	-22%
€ / \$ average parity	1.12		1.19	1.19			

(1) This amount corresponds to subscription software sales, 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.

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

(in thousands of euros)	Three Months Ended June 30						
	2019		At 2018 exchange rates	2018		Changes 2019/2018	
	Actual	%		Actual	%	Actual	Like-for-like
Europe, of which:	26,269	37%	26,300	28,554	39%	-8%	-8%
- France	4,156	6%	4,157	3,917	5%	+6%	+6%
Americas	16,938	24%	16,108	22,027	30%	-23%	-27%
Asia-Pacific	21,363	30%	20,884	17,494	24%	+22%	+19%
Other countries	5,633	8%	5,725	4,964	7%	+13%	+15%
Total	70,204	100%	69,016	73,038	100%	-4%	-6%
€ / \$ average parity	1.12		1.19	1.19			

Revenues by type of business

(in thousands of euros)	Three Months Ended June 30						
	2019		At 2018 exchange rates	2018		Changes 2019/2018	
	Actual	%		Actual	%	Actual	Like-for-like
Revenues from software licenses, equipment and non recurring services, of which:	27,866	40%	27,380	33,223	45%	-16%	-18%
- CAD/CAM and PLM software licenses	3,494	5%	3,451	4,113	6%	-15%	-16%
- Equipment and accompanying software	20,641	29%	20,250	25,257	35%	-18%	-20%
- Training and consulting services	3,266	5%	3,216	3,341	5%	-2%	-4%
- Miscellaneous	464	1%	463	511	1%	-9%	-9%
Recurring revenues, of which:	42,338	60%	41,636	39,816	55%	+6%	+5%
- CAD/CAM and PLM subscription contracts	243	ns	241	93	ns	+161%	+158%
- CAD/CAM and PLM software licenses maintenance contracts	9,522	14%	9,435	9,194	13%	+4%	+3%
- Equipment and accompanying software maintenance contracts	14,384	20%	14,102	13,127	18%	+10%	+7%
- Consumables and spare parts	18,189	26%	17,859	17,402	24%	+5%	+3%
Total	70,204	100%	69,016	73,038	100%	-4%	-6%
€ / \$ average parity	1.12		1.19	1.19			

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

	Three months ended June 30				
	2019 ⁽¹⁾		2018 ⁽²⁾	Changes 2019/2018	
	Actual	At 2018 exchange rates	Actual	Actual	Like-for-like
<i>(in thousands of euros)</i>					
Revenues	70,204	69,016	73,038	-4%	-6%
Cost of goods sold	(19,474)	(19,315)	(20,632)	-6%	-6%
Gross profit	50,729	49,701	52,406	-3%	-5%
<i>(in % of revenues)</i>	72.3%	72.0%	71.8%	+0.5 points	+0.2 points
Research and development	(5,642)	(5,642)	(5,654)	0%	0%
Selling, general and administrative expenses	(35,549)	(35,268)	(36,911)	-4%	-4%
Income from operations	9,538	8,791	9,841	-3%	-11%
<i>(in % of revenues)</i>	13.6%	12.7%	13.5%	+0.1 points	-0.8 points
Income before tax	9,115	8,367	9,459	-4%	-12%
Income tax	(2,226)	na	(2,591)	-14%	na
Net income	6,889	na	6,868	0%	na
€ / \$ average parity	1.12	1.19	1.19		

(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.

(2) Following a change in the scope of R&D teams at the end of 2018, the related expenses for 2018 have been restated to allow for comparison with 2019. 'Research and development' expenses published in 2018 amounted to €6,031,000 and 'Selling, general and administrative expenses' to €36,533,000.

ADDITIONAL INFORMATION – FIRST HALF 2019

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Orders of new system sales by type of business

(in thousands of euros)	Six Months Ended June 30							
	2019			2018			Changes 2019/2018	
	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like	
CAD/CAM and PLM software licenses, of which :	8,241	15%	8,167	8,207	13%	0%	0%	
- Perpetual licenses	6,782	13%	6,721	7,076	11%	-4%	-5%	
- Licenses in SaaS mode ⁽¹⁾	1,459	3%	1,446	1,132	2%	+29%	+28%	
Equipment and accompanying software	38,851	72%	37,805	45,850	74%	-15%	-18%	
Training and consulting services	5,767	11%	5,672	6,467	10%	-11%	-12%	
Miscellaneous	1,047	2%	1,039	1,094	2%	-4%	-5%	
Total	53,906	100%	52,683	61,619	100%	-13%	-15%	
€ / \$ average parity	1.13		1.21	1.21				

(1) This amount corresponds to subscription software sales, 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.

Orders of new system sales by region

(in thousands of euros)	Six Months Ended June 30							
	2019			2018			Changes 2019/2018	
	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like	
Europe	19,905	37%	19,912	24,436	40%	-19%	-19%	
Americas	7,306	14%	6,852	17,103	28%	-57%	-60%	
Asia-Pacific	21,271	39%	20,409	16,081	26%	+32%	+27%	
Other countries	5,424	10%	5,509	3,999	6%	+36%	+38%	
Total	53,906	100%	52,683	61,619	100%	-13%	-15%	
€ / \$ average parity	1.13		1.21	1.21				

Orders of new system sales by market sector

(in thousands of euros)	Six Months Ended June 30							
	2019			2018			Changes 2019/2018	
	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like	
Fashion	27,455	51%	26,699	32,306	52%	-15%	-17%	
Automotive	15,593	29%	15,298	20,477	33%	-24%	-25%	
Furniture	8,502	16%	8,381	5,484	9%	+55%	+53%	
Other industries	2,357	4%	2,305	3,352	5%	-30%	-31%	
Total	53,906	100%	52,683	61,619	100%	-13%	-15%	
€ / \$ average parity	1.13		1.21	1.21				

BREAKDOWN OF REVENUES – LIKE-FOR-LIKE

Revenues by region

(in thousands of euros)	Six Months Ended June 30							
	2019		At 2018 exchange rates	2018		Changes 2019/2018		
	Actual	%		Actual	%	Actual	Like-for-like	
Europe, of which:	54,249	40%	54,323	56,912	41%	-5%	-5%	
- France	8,967	7%	8,972	8,197	6%	+9%	+9%	
Americas	33,038	24%	31,209	38,745	28%	-15%	-19%	
Asia-Pacific	38,211	28%	36,996	35,613	25%	+7%	+4%	
Other countries	11,701	9%	11,815	8,967	6%	+30%	+32%	
Total	137,200	100%	134,344	140,236	100%	-2%	-4%	
€ / \$ average parity	1.13		1.21	1.21				

Revenues by type of business

(in thousands of euros)	Six Months Ended June 30							
	2019		At 2018 exchange rates	2018		Changes 2019/2018		
	Actual	%		Actual	%	Actual	Like-for-like	
Revenues from software licenses, equipment and non recurring services, of which:	53,492	39%	52,305	62,112	44%	-14%	-16%	
- CAD/CAM and PLM software licenses	7,446	5%	7,374	7,836	6%	-5%	-6%	
- Equipment and accompanying software	38,695	28%	37,689	46,611	33%	-17%	-19%	
- Training and consulting services	6,305	5%	6,203	6,570	5%	-4%	-6%	
- Miscellaneous	1,047	1%	1,039	1,094	1%	-4%	-5%	
Recurring revenues, of which:	83,709	61%	82,039	78,125	56%	+7%	+5%	
- CAD/CAM and PLM subscription contracts	446	ns	438	157	ns	+183%	+178%	
- CAD/CAM and PLM software licenses maintenance contracts	19,073	14%	18,857	18,569	13%	+3%	+2%	
- Equipment and accompanying software maintenance contracts	28,358	21%	27,680	25,923	19%	+9%	+7%	
- Consumables and spare parts	35,831	26%	35,064	33,474	24%	+7%	+5%	
Total	137,200	100%	134,344	140,236	100%	-2%	-4%	
€ / \$ average parity	1.13		1.21	1.21				

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

	Six months ended June 30				
	2019 ⁽¹⁾		2018 ⁽²⁾	Changes 2019/2018	
	Actual	At 2018 exchange rates	Actual	Actual	Like-for-like
(in thousands of euros)					
Revenues	137,200	134,344	140,236	-2%	-4%
Cost of goods sold	(37,079)	(36,770)	(39,848)	-7%	-8%
Gross profit	100,122	97,573	100,388	0%	-3%
(in % of revenues)	73.0%	72.6%	71.6%	+1.4 points	+1.0 point
Research and development	(11,141)	(11,141)	(11,243)	-1%	-1%
Selling, general and administrative expenses	(71,544)	(70,832)	(72,128)	-1%	-2%
Income from operations	17,436	15,600	17,017	+2%	-8%
(in % of revenues)	12.7%	11.6%	12.1%	+0.6 points	-0.5 points
Income before tax	16,846	15,010	16,324	+3%	-8%
Income tax	(4,212)	na	(4,057)	+4%	na
Net income	12,634	na	12,267	+3%	na
€ / \$ average parity	1.13	1.21	1.21		

(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.

(2) Following a change in the scope of R&D teams at the end of 2018, the related expenses for 2018 have been restated to allow for comparison with 2019. 'Research and development' expenses published in 2018 amounted to €11,998,000 and 'Selling, general and administrative expenses' to €71,373,000.

Company Certification of the First Half 2019 Report

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

Paris, July 29, 2019

Daniel Harari
Chairman and Chief Executive Officer

Olivier du Chesnay
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	June 30, 2019 ⁽¹⁾	December 31, 2018	June 30, 2018
Goodwill	39,514	39,473	39,313
Other intangible assets	3,894	3,688	3,578
Leasing rights-of-use	18,429	-	-
Property, plant and equipment	25,680	26,347	25,939
Other non-current assets ⁽²⁾	18,557	14,425	17,528
Deferred tax assets	8,622	9,194	9,576
Total non-current assets	114,696	93,127	95,934
Inventories	34,519	34,326	34,072
Trade accounts receivable	47,660	58,564	47,860
Other current assets ⁽²⁾	16,390	15,447	15,974
Cash and cash equivalents	104,009	102,223	86,999
Total current assets	202,578	210,560	184,905
Total assets	317,274	303,687	280,839

EQUITY AND LIABILITIES

(in thousands of euros)	June 30, 2019 ⁽¹⁾	December 31, 2018	June 30, 2018
Share capital	32,026	31,847	31,743
Share premium	15,210	13,843	13,156
Treasury shares	(325)	(560)	(862)
Currency translation adjustments	(9,690)	(9,554)	(9,565)
Retained earnings and net income	134,733	134,802	118,020
Total equity	171,953	170,377	152,491
Retirement benefit obligations	10,590	9,823	9,775
Non-current lease liabilities	13,670	-	-
Borrowings, non-current portion	-	-	-
Total non-current liabilities	24,260	9,823	9,775
Trade and other current payables	54,745	59,664	57,176
Deferred revenues	54,800	56,225	52,762
Current income tax liabilities	3,121	3,488	5,250
Current lease liabilities	5,139	-	-
Borrowings, current portion	-	-	-
Provisions for other liabilities and charges	3,256	4,110	3,385
Total current liabilities	121,061	123,487	118,573
Total equity and liabilities	317,274	303,687	280,839

(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 (see note 6 hereafter). Consequently, the June 30, 2018 amounts have been restated accordingly: an amount of €15.6 million was reclassified, from 'Other current assets' (which amounted to €31.6 million) to 'Other non-current assets' (which amounted to €1.9 million).

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Six months ended June 30, 2019 ⁽¹⁾	Six months ended June 30, 2018 ⁽²⁾
Revenues	137,200	140,236
Cost of goods sold	(37,079)	(39,848)
Gross profit	100,122	100,388
Research and development	(11,141)	(11,243)
Selling, general and administrative expenses	(71,544)	(72,128)
Income from operations	17,436	17,017
Financial income	118	40
Financial expenses	(312)	(221)
Foreign exchange income (loss)	(397)	(513)
Income before tax	16,846	16,324
Income tax	(4,212)	(4,057)
Net income	12,634	12,267

(in euros)		
Earnings per share:		
- basic	0.40	0.39
- diluted	0.39	0.38
Shares used in calculating earnings per share		
- basic	31,925,898	31,622,609
- diluted	32,396,256	32,350,781

(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) Following a change in the scope of R&D teams at the end of 2018, the related expenses for 2018 have been restated to allow for comparison with 2019. 'Research and development' expenses published in 2018 amounted to €11,998,000 and 'Selling, general and administrative expenses' to €71,373,000.

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Six months ended June 30, 2019 ⁽¹⁾	Six months ended June 30, 2018
Net income	12,634	12,267
Currency translation adjustments	(169)	285
Tax effect	33	22
Other comprehensive income to be reclassified in net income	(136)	307
Remeasurement of the net liability arising from defined benefits pension plans	(439)	38
Tax effect	135	(4)
Other comprehensive income not to be reclassified in net income	(304)	34
Total other comprehensive income	(440)	340
Comprehensive income	12,194	12,607

(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)	Six months ended June 30, 2019 ⁽¹⁾	Six months ended June 30, 2018
I - OPERATING ACTIVITIES		
Net income	12,634	12,267
Net depreciation, amortization and provisions ⁽¹⁾	5,850	3,104
Non-cash operating expenses	150	376
Loss (profit) on sale of fixed assets	13	(13)
Changes in deferred income taxes	792	(303)
Changes in inventories	(689)	(3,226)
Changes in trade accounts receivable	9,194	7,179
Changes in other current assets and liabilities ⁽²⁾	(6,117)	(5,549)
Changes in other operating non-current assets ⁽²⁾	(3,483)	(2,812)
Net cash provided by (used in) operating activities	18,345	11,023
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(906)	(887)
Purchases of property, plant and equipment	(1,336)	(3,333)
Proceeds from sales of intangible and tangible assets	2	19
Acquisition cost of companies purchased ⁽³⁾	-	(7,102)
Purchases of financial assets ⁽⁴⁾	(3,533)	(2,502)
Proceeds from sales of financial assets ⁽⁴⁾	2,920	3,170
Net cash provided by (used in) investing activities	(2,853)	(10,635)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	1,546	1,057
Dividends paid	(12,782)	(12,022)
Purchases of treasury shares	(2,909)	(3,075)
Sales of treasury shares	3,264	2,491
Repayment of lease liabilities ⁽¹⁾	(2,965)	-
Net cash provided by (used in) financing activities	(13,846)	(11,549)
Increase (decrease) in cash and cash equivalents	1,646	(11,161)
Cash and cash equivalents at opening	102,223	98,134
Increase (decrease) in cash and cash equivalents	1,646	(11,161)
Effect of changes in foreign exchange rates	140	25
Cash and cash equivalents at closing	104,009	86,999
Net cash provided by (used in) operating activities	18,345	11,023
+ Net cash provided by (used in) investing activities	(2,853)	(10,635)
- Acquisition cost of companies purchased	-	7,102
- Repayment of lease liabilities ⁽¹⁾	(2,965)	-
Free cash flow	12,527	7,490
Income tax (paid) / reimbursed, net	(2,151)	(1,481)
Interest (paid) on lease liabilities	(66)	-
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 June 30, 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 €8.4 million.

(3) At June 30, 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			Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
	Number of shares	Par value per share	Share capital					
Balance at January 1, 2018	31,571,096	1.00	31,571	12,270	(298)	(9,872)	117,538	151,209
Net income							12,267	12,267
Other comprehensive income						307	34	340
Comprehensive income						307	12,301	12,607
Exercised stock options	171,594	1.00	172	886				1,057
Fair value of stock options							216	216
Sale (purchase) of treasury shares					(564)			(564)
Profit (loss) on treasury shares							(13)	(13)
Dividend paid							(12,022)	(12,022)
Balance at June 30, 2018	31,742,690	1.00	31,743	13,156	(862)	(9,565)	118,020	152,491
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							12,634	12,634
Other comprehensive income						(136)	(304)	(440)
Comprehensive income						(136)	12,330	12,194
Exercised stock options	179,210	1.00	179	1,367				1,546
Fair value of stock options							303	303
Sale (purchase) of treasury shares					235			235
Profit (loss) on treasury shares							79	80
Dividend paid							(12,782)	(12,782)
Balance at June 30, 2019 ⁽¹⁾	32,025,967	1.00	32,026	15,210	(325)	(9,690)	134,733	171,953

(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 JUNE 30, 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 equipment.

People

Lectra's strength lies in the skills and experience of more than 1,750 employees worldwide: nearly 870 in France and 890 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:

https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

The condensed consolidated financial statements at June 30, 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 July 29, 2019 and have been subjected to a limited review by the Statutory Auditors. Second quarter financial statements have not been reviewed.

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

Accounting methods changes

The Group applies, as from January 1, 2019, the following changes in its accounting methods. The implementation of IFRS 16 is the only one with an impact on the Group's financial statements.

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). For the two main currencies used by the Group, the weighted-average incremental borrowing rates amount to 0.30% for the euro and 3.03% for the US dollar.

The Group opted for the simplified retrospective transition method which entails accounting for the cumulative effect of initially applying the standard by 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 a right-of-use asset and a lease liability;
- 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 rights-of-use and lease obligations, for an amount of €19.2 million;
- The reclassification of prepaid lease payments as an increase to the rights-of-use, for an amount of €0.1 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.

Main other standards and interpretations

The implementation of amendments to IAS 19 (plan amendment, curtailment or settlement) and IFRIC 23 (uncertainty over income tax treatments) had no impact on the Group's financial statements.

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 June 30, 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.

As the conditional part of this amount was already paid out on an escrow account, and as the Company believes the probability of objectives being met as high, 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 half of 2019, or 2018.

On July 15, 2019, the Company announced the acquisition of the Belgian company Retviews (see press release dated July 15, 2019). Retviews will be fully consolidated as of that date.

Three sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At June 30, 2019, their combined revenues totaled €0.6 million, and their combined assets totaled €2.9 million. They had no financial debt outside of the Group. Most of the sales activity of these subsidiaries is billed directly by Lectra SA.

Transactions with these subsidiaries mainly concern purchases from Lectra SA for the purposes of their local operations, or charges and commissions billed to Lectra SA in order to cover their overheads when they act as agents. The amount concerned by these transactions was not significant at June 30, 2019.

4. OPERATING SEGMENTS INFORMATION

Six months ended June 30, 2019 ⁽¹⁾ (in thousands of euros)	Northern Europe ⁽²⁾	Southern Europe ⁽³⁾	Americas	Asia- Pacific	Corporate	Total
Revenues	25,970	37,243	33,038	40,949	-	137,200
Income (loss) from operations	2,451	6,391	4,737	4,506	(649)	17,436

Six months ended June 30, 2018 ⁽¹⁾ (in thousands of euros)	Northern Europe ⁽²⁾	Southern Europe ⁽³⁾	Americas	Asia- Pacific	Corporate	Total
Revenues	28,396	35,812	38,744	37,284	-	140,236
Income (loss) from operations	3,015	5,922	6,333	2,689	(942)	17,017

(1) Following the new organization into four main regions in January 2019, operating segments have been reviewed, and the 2018 amounts restated accordingly. In the tables showing the breakdown of revenues by region, countries from the 'Other countries' caption have here been reallocated to Northern Europe, Southern Europe and Asia-Pacific.

(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

Six months ended June 30, 2019 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	12,527	-	12,527
Proceeds from issuance of ordinary shares ⁽¹⁾	1,546	-	1,546
Sale and purchase of treasury shares ⁽²⁾	355	-	355
Dividends paid	(12,782)	-	(12,782)
Impact of currency variations – other	140	-	140
Change in cash position for the period	1,786	-	1,786

Cash position at December 31, 2018	102,223	-	102,223
Cash position at June 30, 2019	104,009	-	104,009
Change in cash position for the period	1,786	-	1,786

(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 June 30, 2019, was €12.5 million. This figure results from a combination of €18.3 million in cash flows provided by operating activities (including a decrease in working capital requirement of €2.4 million) and capital expenditures of €2.9 million. The cash flows provided by operating activities also comprise an increase in other operating non-current assets of €3.5 million (corresponding to the part of the H1 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 €3 million, was taken into account.

The variation in working capital is explained as follows:

- –€9.2 million corresponding to the decrease in trade accounts receivable following the cash receipt of a significant portion of the recurring contracts at the beginning of the year, usually yearly in advance (the variation in trade accounts receivable shown in the consolidated statement of cash flows includes 'Deferred revenues' in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues);
- +€0.7 million corresponding to the increase in inventories;

- +€4.6 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 H1 2019 that will be paid in 2020;
- +€1.5 million arising from the changes in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at June 30, 2019 was negative at €14.1 million. It comprised the current portion (€5.7 million) of the €21.4 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 (€4.5 million) for H1 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 June 30, 2019, Lectra SA held a €21.4 million receivable on the French tax administration (of which €15.7 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 (€3.5 million), 2018 (€5 million), 2017 (€4.5 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 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 136,071 shares and sold 151,962 shares at an average price of €21.38 and €21.48 respectively under the liquidity agreement administered by Exane BNP Paribas.

At June 30, 2019, the company held 14,888 Lectra shares (i.e. 0.05% of the share capital) with an average purchase price of €21.81 entirely under the liquidity agreement.

8. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	June 30, 2019	December 31, 2018
Available cash	74,009	72,223
Cash equivalents	30,000	30,000
Borrowings and financial debts	-	-
Net cash	104,009	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 H1 2019, the average parity between the US dollar and the euro was \$1.13/€1.

Exchange risk hedging instruments

Exchange risk hedging instruments at June 30, 2019 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of €1 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 \$1.11/€1 on the date of this report.

In addition to fluctuating against the US dollar and currencies strongly correlated with it, the euro also fluctuates against other currencies. These variations are frequently dissimilar both in direction (upward and downward) and in scale.

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STATUTORY AUDITORS' REVIEW REPORT ON THE 2019 CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

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

To the Shareholders of Lectra S.A.,

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

- the review of the accompanying condensed half-year consolidated financial statements of Lectra S.A., for the period from January 1, 2019 to June 30, 2019;
- the verification of the information presented in the half-yearly management report.

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

1. Conclusion on the financial statements

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

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

Without qualifying our conclusion, we draw your attention to the matter set out in note 2. to the condensed half-year consolidated financial statements regarding the change in accounting policy due to the first application of IFRS 16.

2. Specific verification

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

Neuilly-sur-Seine and Mérignac, July 29, 2019

The Statutory Auditors
French original signed by

PricewaterhouseCoopers Audit SA

KPMG SA

Matthieu Moussy

Jean-Pierre Raud