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

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the third quarter and first nine months of 2019, ending September 30. The financial statements have not been reviewed by the Statutory Auditors.

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 third quarter and first nine months of 2019 are reported in the additional information of this report, starting from page 7.

1. SUMMARY OF OPERATIONS FOR Q3 2019

With an average exchange rate of $1.11/€1 in Q3, the US dollar was up 5% compared to Q3 2018 ($1.16/€1), while the yuan strengthened by 2% against the euro.

Currency changes thus mechanically increased revenues by €1.3 million (+2%) and income from operations by €0.8 million (+7%) at actual exchange rates compared to like-for-like figures.

Stability in orders for new systems

The third quarter was marked by a further escalation of the trade war between the United States and China. The outcome remains uncertain, and the situation has continued to prompt caution from a large number of companies in all Lectra market sectors, resulting in decisions to reduce or postpone their investments.

In these circumstances, orders for new systems (€28 million) were stable compared to Q3 2018. At actual exchange rates, they increased by 1%. Orders for new systems came to €27.4 million in Q1 of this year, followed by €26.5 million in Q2.

Orders for CAD/CAM and PLM software (€3.9 million) and orders for training and consulting (€3.2 million) rose by 30% and 26%, respectively. By contrast, orders for equipment and accompanying software (€20 million), which were 8% lower, have continued to be impacted by the wait-and-see attitude of the Company's customers.

Growth in income from operations

Revenues came to €68.6 million, stable like-for-like compared to Q3 2018 and up 2% at actual exchange rates.

Income from operations was €12.3 million, up 2% like-for-like and 9% at actual exchange rates. The operating margin totaled 17.9%, up 0.4 percentage points like-for-like and 1.2 percentage points at actual exchange rates.

Net income amounted to €8.7 million, up €0.9 million (+11%) at actual exchange rates.

Finally, free cash flow was €5.6 million (€1.3 million in Q3 2018).

Launch of the new Industry 4.0 offers in Asia

In 2018, the Company launched in several countries its first Industry 4.0 offers that enable customers to digitalize and interconnect their entire value chain, and announced they would be progressively available worldwide.

Lectra launched these new offers in Asia at CISMA 2019 (the China International Sewing Machinery & Accessories show devoted to textile and apparel technologies in Shanghai).

These new offers, whose initial results are in line with the Company's expectations, will be rolled out worldwide between now and the end of 2019, as planned. They should increasingly contribute to revenue growth over the next three years.

Acquisition of the company Retviews

On July 15, 2019, Lectra entered into an agreement to acquire 100% of the capital and voting rights of the Belgium company Retviews, with 70% acquired immediately for €8 million and the remainder in three installments in July 2020, 2021 and 2022, for the amounts of about 0.9 times, 0.7 times and 0.5 times of the respective years' revenues.

Founded in 2017, Retviews has developed an innovative technological offer that enables fashion brands to analyze real-time market data and make the best decisions to optimize their collections, increase their sales and margins, thanks to artificial intelligence algorithms.

Retviews has been consolidated in Lectra's accounts since July 15, 2019. The impact on H2 2019 revenues is expected to be approximately €0.5 million and the impact on income from operations non-material.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR FIRST NINE MONTHS OF 2019

Positive impact of currency changes

With an average exchange rate of $1.12/€1 for the first nine months, the US dollar was up 6% compared to the same period in 2018, while the yuan strengthened by 1% against the euro.

Currency changes thus mechanically increased revenues by €4.1 million (+2%) and income from operations by €2.6 million (+10%) at actual exchange rates compared to like-for-like figures.

Orders for new systems

The first nine months of the year were 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 €81.9 million, down 10% compared to the first nine months of 2018: new CAD/CAM and PLM software licenses increased by 7%, equipment and accompanying software decreased by 15%, and training and consulting by 2%. Orders for subscriptions, in particular for new Software-as-a-Service (SaaS) offers, accounted for 20% of CAD/CAM and PLM software orders. Their total annual value totaled €1.1 million (€0.6 million in the first nine months of 2018).

Geographically, the situation is highly contrasted: orders for new systems increased by 10% in Asia-Pacific (despite a decrease of 18% in China), but decreased by 2% in Europe and 51% in the Americas. They increased by 17% in the rest of the world (including Northern Africa, South Africa, Turkey, and the Middle East).

Orders for new systems were down 10% in the fashion market and 20% in the automotive market, but they were up 30% in the furniture market. In the other industries, they decreased by 24%. These market sectors respectively accounted for 50%, 32%, 14% and 4% of the total amount of orders.

Revenues

Revenues totaled €205.8 million, down 3% like-for-like and 1% at actual exchange rates. They were stable in Europe, decreased by 3% in Asia-Pacific and 13% in the Americas, and increased by 18% in the rest of the world. These regions respectively accounted for 40% (including 6% for France), 27%, 25% and 8% of total revenues.

Revenues from software licenses, equipment and non-recurring services

Revenues from software licenses, equipment and non-recurring services (€79.7 million) decreased by 13% (11% at actual exchange rates). They accounted for 39% of total revenues (43% in 2018) and include mainly:

- CAD/CAM and PLM software licenses (€10.3 million), which decreased by 6% and accounted for 5% of total revenues (5% in 2018);
- Equipment and accompanying software (€58.6 million), which decreased by 16% and accounted for 28% of total revenues (33% in 2018);
- Training and consulting revenues (€8.9 million), which decreased by 7% and accounted for 4% of total revenues (5% in 2018).

At September 30, 2019, the order backlog for software licenses, equipment, and training and consulting amounted to €22.2 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 (€20.9 million), increased by €0.3 million like-for-like and by €0.6 million at actual exchange rates compared to December 31, 2018. Compared with the order backlog at September 30, 2018, it decreased by €1.9 million like-for-like and €1.5 million at actual exchange rates.

Revenues from recurring contracts, consumables and parts

Recurring revenues (€126.1 million) increased by 5% (+7% at actual exchange rates). They accounted for 61% of total revenues (57% in 2018).

Revenues from recurring contracts—which represented 35% of total revenues—amounted to €72.6 million, a 5% increase:

- CAD/CAM and PLM software subscription contracts came to €0.9 million (€0.3 million in 2018);
- CAD/CAM and PLM software maintenance contracts (€28.7 million), up 1%, represented 14% of revenues;
- Equipment and accompanying software maintenance contracts (€42.9 million), up 7%, represented 21% of revenues.

In parallel, revenues from consumables and parts (€53.6 million) increased by 4% and represented 26% of total revenues (24% in 2018).

Gross profit

Gross profit amounted to €151 million, down €2.5 million like-for-like, but up €1.2 million at actual exchange rates, compared to 2018.

The overall gross profit margin was 73.3%, up 0.9 percentage point relative to the first nine months of 2018 (+1.2 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 €121.2 million, down 1% compared to 2018. The breakdown is as follows:

- €110.1 million in fixed overhead costs (+1%);
- €11.2 million in variable costs (-16%).

At actual exchange rates, total overhead costs were stable.

Research and development costs (€23.1 million), which are fully expensed in the period and included in fixed overhead costs, represented 11.2% of revenues (€22.6 million and 10.9% of revenues for the first nine months of 2018). After deducting the research tax credit applicable in France, and grants received, net research and development costs amounted to €15.8 million (€16.1 million in 2018).

Income from operations and net income

While commercial activity was highly impacted by the difficult macroeconomic environment, the Company's business model proved its overall strength throughout the first nine months of the year. The increase in recurring revenues and in gross profit margins, combined with tight control over fixed overhead costs, successfully offset the decline in revenues from software licenses, equipment and non-recurring services.

Thus, income from operations totaled €29.7 million, a decrease of €1.1 million (-4%) like-for-like, but an increase of €1.4 million (+5%) at actual exchange rates compared to the first nine months of 2018.

The operating margin was 14.4%, down 0.1 percentage points like-for-like, but up 0.8 percentage points at actual exchange rates.

Financial income and expenses represented a net charge of €0.3 million. Foreign exchange gains and losses generated a net loss of €0.5 million.

After an income tax expense of €7.6 million, net income amounted to €21.3 million, up €1.2 million (+6%) at actual exchange rates.

Net earnings per share came to €0.67 on basic capital and €0.66 on diluted capital (respectively €0.63 and €0.62 for the first nine months 2018).

Free cash flow

Free cash flow totaled €18.1 million, compared to €8.8 million for the first nine months of 2018.

This substantial increase is attributable to tight control over working capital requirement in 2019, compared to a temporary increase of €8.6 million in the first nine months of 2018.

Shareholders' equity

At September 30, 2019, consolidated shareholders' equity amounted to €174.9 million (€170.4 million at December 31, 2018).

The Company is debt-free. Cash and cash equivalents, as well as net cash position, totaled €102.4 million (€102.2 million at December 31, 2018), after the dividend payment of €12.8 million (€0.40 per share) declared in respect of fiscal year 2018 and the disbursement of €8 million for the acquisition of the company Retviews.

The working capital requirement was a negative €11.8 million. It comprised the current portion (€5.7 million) of the €22.1 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 September 30, 2019, the share capital totaled €32,045,920, divided into 32,045,920 shares with a par value of €1.00.

Share capital increased by €199,163 (with a total share premium of €1,566,259) due to the creation of 199,163 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 September 30, 2019, the Company held 0.01% 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 September 30, 2019 was €18.10, down 0.4% compared to December 31, 2018 (€18.18). During the first nine months, it reached a low of €16.42 on September 25 and a high of €24.00 on March 13.

Over the same period, the CAC 40 index and the CAC Mid & Small index rose by 20% and 13%, respectively.

Lectra is mainly part of the following Euronext and EnterNext indexes: CAC All Shares, CAC All Tradable, CAC Mid & Small, CAC Technology, EnterNext PEA-PME 150, and EnterNext Tech 40.

10.4 million shares were traded on Euronext and other trading platforms in the first nine months, which is 25% below the same period of 2018. Euronext accounted for 35% of shares traded in the first nine months of 2019, compared with 29% a year before.

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

No significant event has occurred.

5. FINANCIAL CALENDAR

The Q4 and fiscal year 2019 financial results will be published on February 11, 2020 after the close of trading on Euronext Paris.

6. BUSINESS TRENDS AND OUTLOOK

Lectra entered 2019 with a particularly robust balance sheet and operating fundamentals, a new organization of its subsidiaries, a strengthened Executive Committee and new innovative offers to empower its customers in implementing the principles of Industry 4.0.

2019 outlook

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.

In light of the shortfall in orders for new systems in the first half of the year and limited visibility regarding those orders in the second half, the Company reported on July 29 that it 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.

The results of the third quarter and first nine months of the fiscal year confirmed this anticipation.

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

The Board of Directors

October 30, 2019

ADDITIONAL INFORMATION – THIRD QUARTER 2019

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Orders for new systems by type of business

	Three Months Ended September 30						
	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 :	3,891	14%	3,829	2,955	11%	+32%	+30%
- Perpetual licenses	2,869	10%	2,820	2,720	10%	+5%	+4%
- Licenses in *SaaS* mode (1)	1,023	4%	1,009	234	1%	+337%	+331%
Equipment and accompanying software	20,028	72%	19,685	21,503	78%	-7%	-8%
Training and consulting services	3,236	12%	3,196	2,544	9%	+27%	+26%
Miscellaneous	802	3%	795	586	2%	+37%	+36%
Total	27,958	100%	27,505	27,588	100%	+1%	0%
€ / $ average parity	*1.11*		*1.16*	*1.16*			

(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

	Three Months Ended September 30						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	28,646	42%	28,654	25,907	38%	+11%	+11%
- France	4,081	6%	4,082	4,031	6%	+1%	+1%
Americas	18,164	26%	17,457	17,121	25%	+6%	+2%
Asia-Pacific	16,896	25%	16,336	19,095	28%	-12%	-14%
Other countries	4,903	7%	4,885	5,237	8%	-6%	-7%
Total	68,609	100%	67,331	67,359	100%	+2%	0%
€ / $ average parity	*1.11*		*1.16*	*1.16*			

Revenues by type of business

	Three Months Ended September 30						
	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:	26,174	38%	25,706	27,547	41%	-5%	-7%
- CAD/CAM and PLM software licenses	2,889	4%	2,841	2,983	4%	-3%	-5%
- Equipment and accompanying software	19,895	29%	19,519	21,146	31%	-6%	-8%
- Training and consulting services	2,589	4%	2,551	2,831	4%	-9%	-10%
- Miscellaneous	802	1%	795	586	1%	+37%	+36%
Recurring revenues, of which:	42,435	62%	41,625	39,812	59%	+7%	+5%
- CAD/CAM and PLM subscription contracts	491	ns	489	132	ns	+273%	+271%
- CAD/CAM and PLM software licenses maintenance contracts	9,647	14%	9,539	9,410	14%	+3%	+1%
- Equipment and accompanying software maintenance contracts	14,574	21%	14,264	13,451	20%	+8%	+6%
- Consumables and parts	17,723	26%	17,333	16,819	25%	+5%	+3%
Total	68,609	100%	67,331	67,359	100%	+2%	0%
€ / $ average parity	*1.11*		*1.16*	*1.16*			

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

	Three months ended September 30				
	2019[1]		2018[2]	Changes 2019/2018	
(in thousands of euros)	Actual	At 2018 exchange rates	Actual	Actual	Like-for-like
Revenues	68,609	67,331	67,359	+2%	0%
Cost of goods sold	(17,781)	(17,660)	(17,979)	-1%	-2%
Gross profit	50,828	49,671	49,380	+3%	+1%
(in % of revenues)	74.1%	73.8%	73.3%	+0.8 points	+0.5 points
Research and development	(4,691)	(4,691)	(4,856)	-3%	-3%
Selling, general and administrative expenses	(33,852)	(33,454)	(33,271)	+2%	+1%
Income from operations	12,284	11,525	11,254	+9%	+2%
(in % of revenues)	17.9%	17.1%	16.7%	+1.2 points	+0.4 points
Income before tax	12,092	11,333	10,854	+11%	+4%
Income tax	(3,427)	na	(3,028)	+13%	na
Net income	**8,665**	**na**	**7,825**	**+11%**	**na**
of which, Group share	**8,663**	**na**	**7,825**	**+11%**	**na**
of which, Non-controlling interests	2	na	-	na	na
€ / $ average parity	*1.11*	*1.16*	*1.16*		

(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 €5,233,000 and 'Selling, general and administrative expenses' to €32,893,000.*

ADDITIONAL INFORMATION – FIRST NINE MONTHS 2019

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Orders for new systems by type of business

	Nine Months Ended September 30						
	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 :	12,132	15%	11,996	11,162	13%	+9%	+7%
- Perpetual licenses	9,651	12%	9,541	9,796	11%	-1%	-3%
- Licenses in *SaaS* mode (1)	2,481	3%	2,455	1,366	2%	+82%	+80%
Equipment and accompanying software	58,880	72%	57,490	67,353	76%	-13%	-15%
Training and consulting services	9,003	11%	8,868	9,011	10%	0%	-2%
Miscellaneous	1,849	2%	1,834	1,681	2%	+10%	+9%
Total	81,864	100%	80,188	89,206	100%	-8%	-10%
€ / $ 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.

Orders for new systems by region

	Nine Months Ended September 30						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Europe	31,713	39%	31,738	32,503	37%	-2%	-2%
Americas	12,086	15%	11,494	23,431	26%	-48%	-51%
Asia-Pacific	30,482	37%	29,314	26,755	30%	+14%	+10%
Other countries	7,583	9%	7,642	6,517	7%	+16%	+17%
Total	81,864	100%	80,188	89,206	100%	-8%	-10%
€ / $ average parity	*1.12*		*1.19*	*1.19*			

Orders for new systems by market sector

	Nine Months Ended September 30						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Fashion	41,505	50%	40,403	44,942	50%	-8%	-10%
Automotive	25,983	32%	25,634	31,815	36%	-18%	-20%
Furniture	11,323	14%	11,159	8,542	10%	+33%	+30%
Other industries	3,054	4%	2,992	3,908	4%	-22%	-24%
Total	81,864	100%	80,188	89,206	100%	-8%	-10%
€ / $ average parity	*1.12*		*1.19*	*1.19*			

BREAKDOWN OF REVENUES – LIKE-FOR-LIKE

Revenues by region

(in thousands of euros)	Nine Months Ended September 30 2019 Actual	2019 %	2019 At 2018 exchange rates	2018 Actual	2018 %	Changes 2019/2018 Actual	Changes 2019/2018 Like-for-like
Europe, of which:	82,895	40%	82,976	82,818	40%	0%	0%
- France	13,048	6%	13,054	12,228	6%	+7%	+7%
Americas	51,203	25%	48,666	55,866	27%	-8%	-13%
Asia-Pacific	55,107	27%	53,332	54,708	26%	+1%	-3%
Other countries	16,605	8%	16,700	14,203	7%	+17%	+18%
Total	205,810	100%	201,674	207,595	100%	-1%	-3%
€ / $ average parity	*1.12*		*1.19*	*1.19*			

Revenues by type of business

(in thousands of euros)	Nine Months Ended September 30 2019 Actual	2019 %	2019 At 2018 exchange rates	2018 Actual	2018 %	Changes 2019/2018 Actual	Changes 2019/2018 Like-for-like
Revenues from software licenses, equipment and non recurring services, of which:	79,666	39%	78,011	89,659	43%	-11%	-13%
- CAD/CAM and PLM software licenses	10,335	5%	10,215	10,819	5%	-4%	-6%
- Equipment and accompanying software	58,589	28%	57,208	67,758	33%	-14%	-16%
- Training and consulting services	8,893	4%	8,754	9,401	5%	-5%	-7%
- Miscellaneous	1,849	1%	1,834	1,681	1%	+10%	+9%
Recurring revenues, of which:	126,144	61%	123,664	117,937	57%	+7%	+5%
- CAD/CAM and PLM subscription contracts	937	ns	927	289	ns	+224%	+221%
- CAD/CAM and PLM software licenses maintenance contracts	28,720	14%	28,396	27,980	13%	+3%	+1%
- Equipment and accompanying software maintenance contracts	42,932	21%	41,944	39,375	19%	+9%	+7%
- Consumables and parts	53,555	26%	52,397	50,293	24%	+6%	+4%
Total	205,810	100%	201,674	207,595	100%	-1%	-3%
€ / $ average parity	*1.12*		*1.19*	*1.19*			

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

(in thousands of euros)	Nine months ended September 30				
	2019[1]		2018[2]	Changes 2019/2018	
	Actual	At 2018 exchange rates	Actual	Actual	Like-for-like
Revenues	205,810	201,674	207,595	-1%	-3%
Cost of goods sold	(54,860)	(54,430)	(57,827)	-5%	-6%
Gross profit	150,950	147,244	149,769	+1%	-2%
(in % of revenues)	73.3%	73.0%	72.1%	+1.2 points	+0.9 points
Research and development	(15,832)	(15,832)	(16,098)	-2%	-2%
Selling, general and administrative expenses	(105,397)	(104,286)	(105,399)	0%	-1%
Income from operations	29,721	27,125	28,271	+5%	-4%
(in % of revenues)	14.4%	13.5%	13.6%	+0.8 points	-0.1 points
Income before tax	28,938	26,343	27,178	+6%	-3%
Income tax	(7,639)	na	(7,085)	+8%	na
Net income	**21,299**	**na**	**20,092**	**+6%**	**na**
of which, Group share	**21,297**	**na**	**20,092**	**+6%**	**na**
of which, Non-controlling interests	2	na	-	na	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 €17,231,000 and 'Selling, general and administrative expenses' to €104,266,000.

Company certification of the report for the first nine months of 2019

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 report on operations for the third quarter and first nine months presents a true and sincere view of the significant events that occurred during the first nine months of the fiscal year and their impact on the financial statements, and a description of the main risks and uncertainties for the remaining three months of the fiscal year.

Paris, October 30, 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (in thousands of euros)	September 30, 2019 (1)	December 31, 2018	September 30, 2018
Goodwill	47,616	39,473	39,359
Other intangible assets	3,967	3,688	3,536
Leasing rights-of-use	19,286	-	-
Property, plant and equipment	26,119	26,347	25,845
Other non-current assets (2)	18,975	14,425	18,370
Deferred tax assets	8,772	9,194	9,808
Total non-current assets	124,735	93,127	96,918
Inventories	34,166	34,326	36,396
Trade accounts receivable	43,845	58,564	44,327
Other current assets (2)	14,501	15,447	16,037
Cash and cash equivalents	102,369	102,223	89,108
Total current assets	194,881	210,560	185,868
Total assets	**319,616**	**303,687**	**282,786**

EQUITY AND LIABILITIES (in thousands of euros)	September 30, 2019 (1)	December 31, 2018	September 30, 2018
Share capital	32,046	31,847	31,810
Share premium	15,409	13,843	13,629
Treasury shares	(521)	(560)	(528)
Currency translation adjustments	(9,028)	(9,554)	(9,528)
Retained earnings and net income	136,901	134,802	126,013
Non-controlling interests (3)	142	-	-
Total equity	174,949	170,377	161,397
Retirement benefit obligations	10,925	9,823	9,885
Non-current lease liabilities	13,921	-	-
Minority shares purchase commitment (3)	4,333	-	-
Borrowings, non-current portion	-	-	-
Total non-current liabilities	29,179	9,823	9,885
Trade and other current payables	52,052	59,664	57,024
Deferred revenues	50,046	56,225	47,763
Current income tax liabilities	2,211	3,488	3,176
Current lease liabilities	5,750	-	-
Minority shares purchase commitment (3)	2,167	-	-
Borrowings, current portion	-	-	-
Provisions for other liabilities and charges	3,262	4,110	3,541
Total current liabilities	115,488	123,487	111,504
Total equity and liabilities	**319,616**	**303,687**	**282,786**

(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 September 30, 2018 amounts have been restated accordingly: an amount of €16 million was reclassified, from 'Other current assets' (which amounted to €32.1 million) to 'Other non-current assets' (which amounted to €2.3 million).

(3) These amounts are the result of the acquisition of Retviews. Note 3 hereafter describes the impact of this acquisition on the Group's financial statements.

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Nine months ended September 30, 2019 [(1)]	Nine months ended September 30, 2018 [(2)]
Revenues	205,810	207,595
Cost of goods sold	(54,860)	(57,827)
Gross profit	150,950	149,769
Research and development	(15,832)	(16,098)
Selling, general and administrative expenses	(105,397)	(105,399)
Income from operations	29,721	28,271
Financial income	160	101
Financial expenses	(434)	(338)
Foreign exchange income (loss)	(509)	(857)
Income before tax	28,938	27,178
Income tax	(7,639)	(7,085)
Net income	**21,299**	**20,092**
of which, Group share	**21,297**	**20,092**
of which, Non-controlling interests	2	-

(in euros)		
Earnings per share, Group share:		
- basic	0.67	0.63
- diluted	0.66	0.62
Shares used in calculating earnings per share		
- basic	31,954,013	31,667,217
- diluted	32,385,303	32,347,710

(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 €17,231,000 and 'Selling, general and administrative expenses' to €104,266,000.

STATEMENT OF COMPREHENSIVE INCOME, GROUP SHARE [(1)]

(in thousands of euros)	Nine months ended September 30, 2019 [(2)]	Nine months ended September 30, 2018
Net income, Group share	21,297	20,092
Currency translation adjustments	389	356
Tax effect	137	(12)
Other comprehensive income to be reclassified in net income	526	344
Remeasurement of the net liability arising from defined benefits pension plans	(638)	38
Tax effect	200	(4)
Other comprehensive income not to be reclassified in net income	(438)	34
Total other comprehensive income	88	378
Comprehensive income, Group share	**21,385**	**20,470**

(1) The Group considered as non-material the information regarding the comprehensive income of the non-controlling interests (30% of Retviews minority shares only) and thus only presents the comprehensive income of the Group share.

(2) 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)	Nine months ended September 30, 2019 [(1)]	Nine months ended September 30, 2018
I - OPERATING ACTIVITIES		
Net income	21,299	20,092
Net depreciation, amortization and provisions [(1)]	9,386	5,840
Non-cash operating expenses	371	446
Loss (profit) on sale of fixed assets	53	(8)
Changes in deferred income taxes	949	(578)
Changes in inventories	(505)	(6,510)
Changes in trade accounts receivable	8,161	5,659
Changes in other current assets and liabilities [(2)]	(8,424)	(7,726)
Changes in other operating non-current assets [(2)]	(4,243)	(3,205)
Net cash provided by (used in) operating activities	27,047	14,010
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,360)	(1,217)
Purchases of property, plant and equipment	(2,798)	(4,270)
Proceeds from sales of intangible and tangible assets	3	20
Acquisition cost of companies purchased [(3)]	(7,629)	(7,102)
Purchases of financial assets [(4)]	(4,710)	(3,640)
Proceeds from sales of financial assets [(4)]	4,490	3,900
Net cash provided by (used in) investing activities	(12,004)	(12,309)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	1,765	1,597
Dividends paid	(12,782)	(12,022)
Purchases of treasury shares	(4,391)	(3,803)
Sales of treasury shares	4,444	3,595
Repayment of lease liabilities [(1)]	(4,545)	-
Net cash provided by (used in) financing activities	(15,509)	(10,633)
Increase (decrease) in cash and cash equivalents	**(466)**	**(8,932)**
Cash and cash equivalents at opening	102,223	98,134
Increase (decrease) in cash and cash equivalents	(466)	(8,932)
Effect of changes in foreign exchange rates	612	(94)
Cash and cash equivalents at closing	102,369	89,108
Net cash provided by (used in) operating activities	27,047	14,010
+ Net cash provided by (used in) investing activities	(12,004)	(12,309)
- Acquisition cost of companies purchased	7,629	7,102
- Repayment of lease liabilities [(1)]	(4,545)	-
Free cash flow	18,127	8,803
Income tax (paid) / reimbursed, net	(3,412)	(5,299)
Interest (paid) on lease liabilities	(114)	-
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 September 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 €10.9 million.

(3) At September 30, 2019, this amount corresponds to the acquisition cost of 70% of Retviews, net of cash acquired. At September 30, 2018, this amount corresponded to the acquisition cost of Kubix Lab, net of cash acquired (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	Par value per share	Share capital	Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	**Equity, Group share**	Non controlling interests (1)	**Equity, Group share**
Balance at January 1, 2018	31,571,096	1.00	31,571	12,270	(298)	(9,872)	117,538	151,209		151,209
Net income							20,092	20,092		20,092
Other comprehensive income						344	34	378		378
Comprehensive income						344	20,126	20,470		20,470
Exercised stock options	238,869	1.00	239	1,358				1,597		1,597
Fair value of stock options							356	356		356
Sale (purchase) of treasury shares					(230)			(230)		(230)
Profit (loss) on treasury shares							15	15		15
Dividend paid							(12,022)	(12,022)		(12,022)
Balance at September 30, 2018	31,809,965	1.00	31,810	13,629	(528)	(9,528)	126,013	161,397		161,397
Balance at January 1, 2018	31,571,096	1.00	31,571	12,270	(298)	(9,872)	117,538	151,209		151,209
Net income							28,740	28,740		28,740
Other comprehensive income						318	102	420		420
Comprehensive income						318	28,842	29,159		29,159
Exercised stock options	275,661	1.00	276	1,573				1,849		1,849
Fair value of stock options							493	493		493
Sale (purchase) of treasury shares					(262)			(262)		(262)
Profit (loss) on treasury shares							(49)	(49)		(49)
Dividend paid							(12,022)	(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		170,377
Net income							21,297	21,297	2	21,299
Other comprehensive income						526	(438)	88		88
Comprehensive income						526	20,859	21,385	2	21,387
Exercised stock options	199,163	1.00	199	1,566				1,765		1,765
Fair value of stock options							513	513		513
Sale (purchase) of treasury shares					39			39		39
Profit (loss) on treasury shares							9	9		9
Integration of Retviews and minority shares purchase commitment (1)							(6,500)	(6,500)	140	(6,360)
Dividend paid							(12,782)	(12,782)		(12,782)
Balance at September 30, 2019 (2)	**32,045,920**	**1.00**	**32,046**	**15,409**	**(521)**	**(9,028)**	**136,901**	**174,807**	**142**	**174,949**

(1) These amounts are the result of the acquisition of Retviews. Note 3 hereafter describes the impact of this acquisition on the Group's financial statements.

(2) 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 SEPTEMBER 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 34 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. 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 September 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 October 30, 2019 and 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.

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 intersegment 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 September 30, 2019, the Group's scope of consolidation comprised the parent company, Lectra SA, together with 31 fully-consolidated companies.

On July 15, 2019, the Group announced the acquisition of the Belgian company Retviews (see chapter 1 of this Financial Report).

The transaction involved the immediate acquisition of 70% of the capital and voting rights of Retviews for €8 million. The acquisition of the remaining capital and voting rights will take place in three installments in July 2020, July 2021 and July 2022 for the amounts of about 0.9 times 2020 revenues, 0.7 times 2021 revenues and 0.5 times 2022 revenues, respectively.

The purchase price accounting is in the process of being finalized. As of today, the main impacts on the Group's financial statements are:

- Goodwill recorded for an amount of €7.7 million;
- Non-controlling interests recorded for an amount of €0.1 million, measured at their proportionate share in the net assets acquired (using the "partial goodwill method");
- A debt to recognize the minority shares purchase commitment, measured at fair value, recorded for a total amount of €6.5 million (of which €2.2 million is classified as current liabilities and €4.3 million as non-current liabilities). The counterpart is recorded in 'Equity, Group share'.

The acquisition cost for Lectra has been entirely disclosed under the heading 'Acquisition cost of companies purchased' in the statement of cash flows, net of cash acquired, for an amount of €7.6 million.

Retviews and its Romanian subsidiary have been fully consolidated since July 15, 2019.

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 of 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 nine months of 2019, or 2018.

Three sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At September 30, 2019, their combined revenues totaled €1 million, and their combined assets totaled €3.2 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 September 30, 2019.

4. OPERATING SEGMENTS INFORMATION

Nine months ended September 30, 2019[1] (in thousands of euros)	Northern Europe[2]	Southern Europe[3]	Americas	Asia-Pacific	Corporate	Total
Revenues	42,254	53,520	51,202	58,833	-	205,810
Income (loss) from operations	5,022	9,748	7,643	5,552	1,755	29,721

Nine months ended September 30, 2018[1] (in thousands of euros)	Northern Europe[2]	Southern Europe[3]	Americas	Asia-Pacific	Corporate	Total
Revenues	41,322	52,895	55,866	57,512	-	207,595
Income (loss) from operations	4,621	9,115	9,230	4,315	991	28,271

(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

Nine months ended September 30, 2019 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	18,127	-	18,127
Proceeds from issuance of ordinary shares[1]	1,765	-	1,765
Sale and purchase of treasury shares[2]	53	-	53
Acquisition cost of companies purchased[3]	(7,629)	-	(7,629)
Dividends paid	(12,782)	-	(12,782)
Impact of currency variations – other	612	-	612
Change in cash position for the period	146	-	146
Cash position at December 31, 2018	102,223	-	102,223
Cash position at September 30, 2019	102,369	-	102,369
Change in cash position for the period	146	-	146

(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).

(3) Acquisition cost of Retviews, net of cash acquired (see note 3).

Free cash flow at September 30, 2019, was €18.1 million. This figure results from a combination of €27 million in cash flows provided by operating activities (including an increase in working capital requirement of €0.8 million) and capital expenditures of €4.4 million. The cash flows provided by operating activities also comprise an increase in other operating non-current assets of €4.2 million (corresponding to the part of the first nine months of 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 €4.5 million, was taken into account.

The variation in working capital is explained as follows:

- −€8.2 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 and a decline in revenues from software licenses, equipment and non-recurring services (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);
- +€0.5 million corresponding to the increase in inventories;
- +€3.3 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 during the first nine months of 2019 that will be paid in 2020;
- +€2.3 million coming from the decrease in trade accounts payable;
- +€1.7 million coming from the decrease in down payments received from customers;
- +€1.2 million arising from the changes in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at September 30, 2019 was negative at €11.8 million. It comprised the current portion (€5.7 million) of the €22.1 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 (€6.8 million) for the first nine months of 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 September 30, 2019, Lectra SA held a €22.1 million receivable on the French tax administration (of which €16.5 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 (€4.2 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 213,594 shares and sold 214,795 shares at an average price of €20.56 and €20.69 respectively under the liquidity agreement administered by Exane BNP Paribas.

At September 30, 2019, the company held 29,578 Lectra shares (i.e. 0.09% of the share capital) with an average purchase price of €17.63 entirely under the liquidity agreement.

8. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	September 30, 2019	December 31, 2018
Available cash	72,369	72,223
Cash equivalents	30,000	30,000
Borrowings and financial debts	-	-
Net cash	102,369	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, and minority shares purchase commitment 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.

During the first nine months of 2019, the average parity between the US dollar and the euro was $1.12/€1.

Exchange risk hedging instruments

Exchange risk hedging instruments at September 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 €3.3 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.