2015

FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dear Shareholders,

This Management Discussion and Analysis reports on the company's operations and financial results, as well as on those of all of its subsidiaries, for its 42nd fiscal year, ended December 31, 2015.
It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 29, 2016 (available in French only), which, in addition, discusses in detail the financial statements and other disclosures relating to the parent company, Lectra SA, presents its report on the Group's corporate social and environmental responsibility information in the framework of the "Grenelle II" Act and the reasons underlying the draft resolutions submitted for approval by the shareholders.
Unless stated otherwise, comparisons are at actual exchange rates. When mentioned, "like-for-like" comparisons between 2015 and 2014 correspond to 2015 figures restated at 2014 exchange rates.

1. SUMMARY OF EVENTS AND PERFORMANCE IN 2015

Tougher than Expected Macroeconomic Conditions

In its February 11, 2015 report, the company stated that 2015 was likely to be both difficult and unpredictable, with persistently uncertain macroeconomic, geopolitical and monetary conditions liable to delay a return of confidence and continuing to weigh heavily on companies' investment decisions.
Several unforeseen events have aggravated conditions beyond expectations, including the slowing growth of the global economy, particularly China's—with consequences for all Asian countries, which are highly dependent on China, and raw material-exporting countries—the crash of Brazil's economy, major currency shifts unsettling almost all countries' conditions, the steep fall in oil prices, wars in the Middle East, terrorist attacks in France and elsewhere in the world, etc. The proven competitiveness of the US industry was among the positives, meanwhile.
Companies within Lectra's market sectors have consequently slowed their investments in response to a lack of visibility and rising concerns.

Positive Impact from Weaker Euro

With an average parity of $1.11/€1, the US dollar was up 20% compared with 2014 ($1.33/€1). The yuan appreciated 17%, meanwhile.
Exchange rate variations have had a very favorable mechanical impact overall, boosting 2015 revenues by €16.4 million (+7%) and income from operations by €8.9 million (+39%) at actual exchange rates compared with like-for-like figures.
Given the complex effects produced by such sharp fluctuations in currency parities, described below, like-for-like comparisons between 2015 and 2014 are of limited relevance.

Lectra's Competitiveness Strengthened

The sharp fall in the euro since summer 2014 has been a major event for the company, significantly bolstering its competitive position worldwide. Indeed, Lectra has opted to maintain its R&D and manufacturing in France, while investing in innovation to enhance its competitiveness.
Most of Lectra's production costs are thus euro-denominated, with practically zero inflation.
Conversely, most of its competitors—especially the main one, a US company—manufacture their equipment in China. Consequently, their operating costs, essentially yuan-denominated, are subject not only to continuously rising wages and social charges, but also to higher inflation.
For all players, sale prices in North America and Asia are mainly expressed in US dollars, or in yuan in China.
Competitors manufacturing in China have maintained their sale prices for these markets and are starting to raise them in Europe in order to avoid a deterioration of their margins.
On their side, the few European vendors specialized in CAM equipment that have maintained their production in Europe, have similarly benefited from the currency movements, and have cut their sale prices in Asia and in North and South America in order to expand their market shares.

Complex Effects for Lectra's Customers

At the same time, the competitive situations of Lectra customers have altered radically—improving or deteriorating—depending on the location of their production and sales.

The European companies that have outsourced their production or made their purchases in China must adjust to rising import costs by realigning their supply strategy. As a result, as Chinese manufacturers become less competitive they are experiencing a decline in orders from European customers, leading to industrial overcapacity, which in turn has negatively impacted their investment decisions.

In emerging countries, the sharp depreciation in their currencies against the dollar (in Brazil especially, with a 44% decline in the Brazilian real since summer 2014) has also damaged business investment due to significantly increased costs.

As a result of this situation, the company adjusted its sales prices at the beginning of September.

Orders for New Systems Up at Actual Exchange Rates and Stable Like-for-Like

Orders for new systems amounted to €102.4 million, up €8.1 million (+9%) relative to 2014 at actual exchange rates and stable like-for-like. They fell below company expectations of a rise of more than 15% like-for-like.

Orders for new software licenses (€23.7 million) were up 6%, and CAD/CAM equipment (€64.2 million) increased by 13%. Training and consulting (€12.3 million) were down 4%, in the absence of significant new projects signed in the first half.

Geographically, the situation is highly contrasted: orders in the Americas increased by 55% (+64% in North America and +24% in South America), but were down 5% in Europe and 1% in Asia-Pacific; they increased by 11% in the rest of the world (North Africa, South Africa, Turkey, the Middle East, etc.).

By market sector, orders were up 9% in the fashion and apparel market and stable in the automotive market. They were up 59% in furniture, while falling 5% in other industries. These markets respectively accounted for 49%, 33%, 11% and 7% of total orders.

Very Strong Earnings Growth

Revenues (€237.9 million) were up by 13% relative to 2014. Income from operations reached €31.8 million and net income €23.4 million, up by €12 million (+61%) and €9 million (+63%) respectively.

The operating margin was 13.4%, up 4 percentage points. Like-for-like, revenues grew by 5%, income from operations by 16%, and operating margin was 0.9 percentage points higher.

The company's objective, communicated in its financial report on February 11, 2015, was to generate total revenues of approximately €240 million for the fiscal year 2015, income from operations before non-recurring items of around €29 million, an operating margin before non-recurring items of 12%, and net income of around €20 million, based on exchange rates at December 15, 2014, notably $1.25/€1.

At actual exchange rates, revenues for 2015 (€237.9 million) are very close to this objective and income from operations (€31.8 million) is €2.8 million ahead. Operating margin (13.4%) is 1.4 percentage points higher, thanks to improved margins, lower-than-expected overhead costs and the positive impact of currency fluctuations. Net income (€23.4 million) exceeds the objective by €3.4 million.

At the exchange rates used when setting these objectives, revenues and income from operations were €226 million and €25.4 million respectively, lagging behind the objectives by €14 million (-6%) and €3.6 million (-12%) respectively.

Increase in Free Cash Flow

Free cash flow amounted to €21.5 million, versus €19 million in 2014.

A Zero-Debt Company, Shareholders' Equity and Net Cash Position Further Strengthened

At December 31, 2015, shareholders' equity increased by €18.7 million compared to December 31, 2014, and reached €113 million (+20%); net cash position by €16.3 million to €59.3 million (+38%), after payment of the dividend of €7.6 million declared in respect of fiscal year 2014.
The company was debt free as of March 31, 2015.

Acquisitions and Partnerships

The company made no acquisitions in 2015 and did not enter into any new strategic partnership agreements.

2. STRATEGIC ROADMAP FOR 2013-2016: THIRD PROGRESS REPORT

Lectra's first strategic roadmap, for 2010-2012, was intended to strengthen the company, prepare it for the post-crisis challenges and seize resulting opportunities. This roadmap successfully demonstrated its effectiveness and the solidity of the company's business model, as well as its high degree of resilience.
The company published its second strategic roadmap, for 2013-2015, in its financial report of February 12, 2013. This new roadmap outlined its transformation plan and €50 million in investments for the future, launched at the end of 2011.
But slower than expected global growth and increasingly uncertain macroeconomic conditions counseled caution, and in its February 11, 2014 report the company announced it was postponing fulfilment of its financial objectives initially set for 2015 until the end of 2016. Consequently, this roadmap had been extended to cover the period 2013-2016. The various points covered by this roadmap are summarized below, followed by a third progress report.

A Long-Term Strategy

The roadmap for 2013-2016 aimed to fully realize the company's growth potential as it pursues its long-term strategy, which remained its overriding priority. The roadmap's principal objectives remained unchanged: to accentuate Lectra's technological leadership and further enhance the value of its product and service offer; strengthen its competitive position and its long-term relationships with customers; accelerate its organic growth; boost its profitability by regularly increasing its operating margin; and, finally, generate free cash flow in excess of net income (assuming receipt or utilization of the French research tax credit and the competitiveness and employment tax credit recognized in the year), thereby enabling the company to self-finance its future growth.

Progress Report

These five strategic objectives have guided the company in its operations and are reflected in its 2015 business and financial results.

Building for the Future in the New Post-Crisis Economic Order

The roadmap was based on the assumption that eight economies (Brazil, Russia, India, China, South Korea, Indonesia, Mexico and Turkey) would generate half of global growth over the present decade. Following China's example, their growth models were expected to be driven increasingly by domestic demand, greater added value, and efforts to raise corporate margins. Lectra was well armed to turn this new economic order into a vehicle for dynamic growth. The other half of global growth was still expected to occur in developed countries, where the Group already held a significant market share.
On this view, the company expected to build on its premium positioning, backed by new generations for all of its solutions, enhanced technological leadership, high performing services, expert knowledge of its teams in customers' businesses, and its growing importance as a supplier to major global customers, helping them support their competitiveness strategy. Lectra remained the sole player in its industry able to supply a complete high value offer across all its geographical markets and market sectors, giving its customers a unique long-term competitive advantage.
Five accelerators were expected to drive Lectra's growth: the emerging countries, together with the industrial revival in the United States and other developed countries; the automotive market, which is currently experiencing far-reaching technological and geographical change; the leather market, thanks to the revolutionary

new range of *Versalis* automated cutters; PLM for fashion and apparel, where Lectra supplies collaborative solutions for superior collection management; and, finally, 3D technology, the new universal product development solution for fashion and apparel.

Progress Report

In its second progress report of February 11, 2015, the company noted that countries and market sectors' contributions to growth in Lectra's activity varied widely, depending on the change in the state of their respective economies since its initial assumption. Consequently, the three growth accelerators for 2015 and 2016 were expected to be China, the automotive market and PLM for fashion and apparel, the others being expected to produce their effects further into the medium term.

The steep fall in the euro since summer 2014, notably against the dollar and yuan, has significantly bolstered the Group's competitive position. Conversely, the upheaval in foreign exchange parities, together with the slowdown in the Chinese economy and the impact of these two factors on many economies, especially Turkey and Brazil, as well as on South Korea and certain ASEAN countries, have had a sharply negative impact on the Group's business (see chapter 2).

After a period of transition and stabilization, which may continue for an unknown length of time, China should account, alone, for around a third of growth potential of business activity in the medium term, as forecast. Lectra's offer is ideally suited to the Chinese government's new *Made in China 2025* plan to develop the country's high value-added industrial capabilities. In the current tougher economic climate, Brazil's and Turkey's contributions are expected to revert to their forecast levels over a longer time horizon. The United States, Germany, Italy and France, along with Mexico, could pick up faster than expected.

Having further reinforced its premium positioning, continued to enrich its teams' expertise, and bolstered its technological leadership in 2015, Lectra is poised to leverage to the maximum opportunities in these different markets.

Despite transient under-performance in the automotive market in 2015, its share in the Group's activity is expected to increase in 2016 as well as in the medium term, under the combined impact of expanding markets in China and the other emerging countries, the rising proportion of leather-upholstered car interiors, and the growing use of airbags. The revolutionary new *FocusQuantum* laser airbag cutter that was launched in December 2015 should contribute to further strengthening Lectra's leadership.

Growth in the leather market will be concentrated essentially in the automotive sector, with slower uptake of new technologies in the furniture market—which nevertheless rebounded strongly in 2015 and should represent over the medium term the second-largest market for leather after automotive—and the fashion and apparel market.

Market globalization, rising consumption in the emerging countries and the growth of Internet sales are all expected to boost demand for PLM software in the fashion and apparel market. Despite some successes in 2015, PLM orders continue to lag behind expectations, but sales are expected to accelerate from 2016. On the other hand, adoption of 3D technology will proceed more slowly than forecast: this technology represents an inevitable revolution for businesses, obliging them to radically rethink their development methods in order to reap its benefits in full.

Deliberately Cautious Macroeconomic Assumptions

The roadmap was based on the weak macroeconomic conditions prevailing in 2012 and on global growth forecasts known at the time, while allowing for an upturn in business confidence. Given the prevailing conditions, businesses would inevitably need to adapt and build for their own future, as well as to start investing again gradually.

Progress Report

The macroeconomic context was more difficult than expected in 2015 (see chapter 1).

Translated at the exchange rates assumed in 2013, revenues and income from operations are lagging behind the roadmap.

Clear and Ambitious Financial Goals

The main financial goals contained in the roadmap, based on exchange rates at February 1, 2013 (in particular $1.35/€1) were:

– revenue growth above 33% like-for-like over the period 2013-2016;

– a 15% operating margin (before non-recurring items) in 2016;

– income from operations (before non-recurring items) and net income to more than double in four years.

These goals, based on organic growth, were to be achieved through tight control over key operating ratios, by preserving a security ratio (i.e. the percentage of annual fixed overhead costs covered by gross profit on recurring revenues) greater than 75%.

If these goals were met, income from operations before non-recurring items would increase nearly fourfold in 2016 relative to 2007, the last pre-crisis year, and the operating margin (before non-recurring items) would rise by nearly 10 percentage points, at actual exchange rates.

The company indicated that it may have occasion to review these goals during the course of the year, given the prevailing uncertainties and forecasting difficulties.

Progress Report

In 2015, while orders for new systems and corresponding revenues again fell behind the roadmap for the year, recurring revenues outpaced expectations.

The company benefited fully from the positive effects of a weaker euro, with revenues, income from operations and net income up by 13%, 61% and 63% respectively, at actual exchange rates.

Fixed overhead costs other than investments for the future were below budget and all other metrics were in line or better than expected.

The business model has emerged strengthened, moreover, with better than expected profitability ratios, overall gross profit margin and operating margin especially, and the security ratio was particularly robust (83%).

A Far-Reaching Company Transformation Plan and Investments for the Future

In response to the scale of the economic crisis in 2008-2009, the company reduced its fixed overhead costs by nearly 20%, bringing them down from €124 million in 2007 to €100 million in 2010. A second transformation phase was planned in order to build its new post-crisis structure.

Innovation, human capital united around a strong corporate culture, uncompromising ethics in the conduct of its business, and closeness to its customers continue to drive Lectra's leadership.

On the strength of its financial performance, the company gave priority to its long-term strategy over short-term profitability, devoting the necessary financial resources to this goal. This three-point plan, launched at the end of 2011, covered the four-year period from 2012 to 2015, and comprised:

– a major recruitment plan to strengthen sales and marketing teams, which would grow from 220 people at the end of 2011 to 330, and from 16% to 22% of the total workforce;

– the addition of 40 software R&D engineers in Bordeaux-Cestas (France), bringing the total R&D workforce to 260 engineers;

– accelerated investment in marketing.

Altogether, these investments for the future represented a cumulative €50 million, fully expensed, while their benefits would only be felt progressively. They were expected to cap fixed overhead costs at around €130 million in 2015 (based on the exchange rates initially assumed in 2013, in particular $1.35/€1), i.e. below the inflation-adjusted 2007 figure.

If the recruitment program had been executed in full, Lectra's workforce would have risen by around 200 to 1,540 by end-2015. This is equivalent to the pre-crisis level of 1,551 in 2007, but with resources reallocated to core strategic activities, the most promising geographical markets and market sectors, while at the same time boosting efficiency and improving skills and performance.

The main focus of the far-reaching renewal and strengthening of Lectra's sales and support teams was on the Corporate functions, together with North America, China, and the Germany and Eastern Europe region.

Progress Report

The recruitment plan was reviewed in the company's financial report of February 11, 2015, reallocating new hires across the geographic and market sectors on the one hand, and, on the other hand, increasing the proportion of pre-sales consultants in light of the growing strategic importance for customers of their investments in Lectra's technologies.

This plan came to an end at the close of 2015, as intended. Practically all of the planned recruitments occurred, but delays in recruiting sales teams in 2013 and 2014 together with certain replacements mean that teams are more recent than planned (almost a quarter of sales teams have been with the company for less than 12 months).

As of December 31, 2015:

– Lectra's workforce had increased by 179 since the end of 2011 to a total of 1,517 employees, 13% of whom joined the company in 2015 and 37% since the start of the plan. 23 individuals, most of whom were recruited at the end of 2015, will join the Group in 2016, bringing the total workforce to 1,540.

– The sales—including the pre-sales consultants—and marketing teams totaled 337 (+109), of whom 24% joined the Group in 2015 and 62% since the launch of the plan.

– R&D teams totaled 265 (+47; nearly all of whom are software R&D engineers).

Meanwhile, increased investment in marketing has enhanced Lectra's image and raised its profile, thanks in particular to the new lectra.com website, which has been online since December 2014; the September 2015 launch of a fully-localized Chinese site, lectra.cn; a steadily enriched database of customer testimonials; three global communications campaigns in the fashion and apparel, furniture and automotive markets; and major international events held on the Bordeaux-Cestas technology campus.

The transformation and investment for the future plan will have enabled a major renewal and a reallocation of resources toward the most strategically important activities as well as the fastest-growing geographical markets and market sectors, with a total Group headcount as planned. The company has now entered a process of continuous improvement.

Investments for the future totaled €48.1 million at the end of 2015, and will reach €50 million as initially planned: around €2 million committed in 2015 will be recorded in the expenses for 2016.

Fixed overhead costs totaled €133 million in 2015.

Development Internally Funded in Full

The roadmap's objective was for annual free cash flow to continue to exceed net income (assuming utilization or receipt of the research tax credit and the competitiveness and employment tax credit applicable in France), enabling the company to pursue its dividend-payment policy while financing its future development, free of all financial debt.

The company intended to pursue its dividend-payment policy with a payout ratio of around 33% of net income (excluding non-recurring items), the remaining 67% serving to continue to self-finance the company's growth. This ratio could exceptionally rise to or exceed 50%, until the investments for the future have produced their full impact, insofar as they were already taken into account in the computation of net income and free cash flow.

Lastly, the company was to refrain from any share buyback plan, apart from the Liquidity Agreement, and preserve its cash in order to finance future targeted acquisitions, should the right opportunities arise on favorable terms.

Progress Report

The balance sheet at the end of 2015 is much stronger than expected. Income and free cash flow have enabled the company to increase its dividend steadily.

No acquisition took place, nor was any envisaged.

3. CONSOLIDATED FINANCIAL STATEMENTS FOR 2015

Revenues

Revenues totaled €237.9 million, up 13% (+5% like-for-like) compared with 2014.
Revenues increased in all regions: +3% in Europe, +28% in the Americas, +17% in Asia-Pacific, and +7% in the rest of the world. These regions respectively accounted for 43% (including 7% for France), 28%, 23%, and 6% of total revenues. In 2014, these regions respectively accounted for 46% (including 8% for France), 24%, 23%, and 7% of total revenues.

Revenues from New Systems Sales

Overall, revenues from new systems sales (€99.4 million) increased by 12% (+3% like-for-like). They represented 42% of total revenues, as in 2014.
Revenues from new software licenses (€23.7 million) increased by 9% and accounted for 10% of total revenues, as in 2014.
CAD/CAM equipment revenues (€61.3 million) were up 13% and accounted for 26% of total revenues, as in 2014.
Training and consulting increased by 17% to €12.2 million and accounted for 5% of total revenues, as in 2014.

Revenues from Recurring Contracts and Consumables and Spare Parts

Recurring revenues (€138.5 million) increased by 13% (+6% like-for-like). As in 2014, they accounted for 58% of total revenues.
Revenues from recurring contracts—which contributed 58% of recurring revenues and 33% of total revenues—totaled €79.7 million, a 11% increase (+5% like-for-like):
– revenues from software evolution and online services contracts (€46 million), up 10% compared with 2014, represented 19% of total revenues;
– revenues from CAD/CAM equipment maintenance and online services contracts (€33.7 million), which increased by 13%, contributed 14% of total revenues.

Revenues from consumables and spare parts (€58.8 million), meanwhile, increased by 15% (+7% like-for-like) and represented 25% of total revenues (24% in 2014).

Order Backlog

At December 31, 2015, the order backlog for new systems (€23 million) was up €3.5 million relative to December 31, 2014 at actual exchange rates.
This backlog comprised orders for new software licenses and CAD/CAM equipment totaling €17 million, comprising €14.1 million for shipment in Q1 2016, and €2.9 million over the rest of the year, and €6.1 million for training and consulting, to be delivered as projects progress.

Gross Profit

Gross profit amounted to €179.3 million. The €23.6 million increase relative to 2014 represents almost 90% of the growth in revenues.
The overall gross profit margin was 75.4%. It increased by 1.7 percentage points relative to 2014, given the combined effects of exchange rate variations and a new improvement in gross profit margins. Like-for-like, the overall gross profit margin increased by 0.5 percentage points.
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 selling, general, and administrative expenses.

Overhead Costs

Total overhead costs were €147.5 million, up 9% (+4% like-for-like).
The breakdown is as follows:
– €132.8 million in fixed overhead costs (+9%; +5% like-for-like). Investments for the future related to the transformation plan, which are fully expensed in the period, represented €18.1 million, or 14% of the total amount;

– €14.7 million in variable costs (+5%; -3% like-for-like).
R&D costs are fully expensed in the period and included in overhead costs. They amounted to €22.4 million and represented 9.4% of revenues (€21.7 million and 10.2% in 2014). After deducting the research tax credit and the corresponding portion of the competitiveness and employment tax credit applicable in France and grants accounted for since the beginning of the year, net R&D costs amounted to €14.3 million (€13.5 million in 2014).

Income from Operations and Net Income

Income from operations was €31.8 million, an increase of €12 million (+61%; +16% like-for-like).
This €12 million increase stems from the positive impact of the growth in recurring revenues (€5.4 million), in revenues from new systems sales (€2.5 million), in gross profit margins (€1.2 million), and from the positive impact of currency fluctuations (€8.9 million). These impacts were partly offset by the natural increase in fixed overhead costs (€2.2 million), and the increase in investments for the future related to the company's transformation plan (€3.9 million).
Financial income and expenses represented a net charge of €0.2 million. Foreign exchange gains and losses generated a net loss of €0.5 million.
After an income tax expense of €7.7 million, net income amounted to €23.4 million, up 63% (€14.4 million in 2014).
Net earnings per share were €0.76 on basic capital and €0.74 on diluted capital (€0.48 on basic capital and €0.47 on diluted capital in 2014).

Free Cash Flow

Free cash flow amounted to €21.5 million, versus €19 million in 2014. This includes the receipt of €4.8 million in 2015 and €5.7 million in 2014 corresponding to the non-deducted research tax credit for fiscal 2011 and 2010.
The research tax credit (€6.9 million) and the competitiveness and employment tax credit (€0.8 million) for 2015, applicable in France, were accounted for but not received. If they had been received, free cash flow would have been €24.5 million, excluding the 2011 research tax credit reimbursement, compared to €21 million in 2014, computed on the same basis.

Shareholders' Equity

At December 31, 2015, shareholders' equity increased by €18.7 million compared to December 31, 2014, and reached €113 million, after payment of the dividend of €7.6 million (€0.25 per share) declared in respect of fiscal year 2014. The figure for shareholders' equity is calculated after deduction of treasury shares held under the Liquidity Agreement and carried at cost, i.e. €0.2 million (€0.1 million at December 31, 2014).
The company was debt free as of March 31, 2015.
Cash and cash equivalents as well as net cash position amounted to €59.3 million. At December 31, 2014, they were €43.5 million and €43.1 million respectively.
The working capital requirement was negative at €3.2 million. This includes the receivable of €23.7 million on the French tax administration *(Trésor public)* corresponding to the research tax credit recognized since fiscal year 2012, which have not yet been received or offset against income tax. Restated for this receivable, the working capital requirement was negative at €27 million, a key feature of the Group's business model.
When these tax credits cannot be deducted from corporate income tax, they are treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the company in the course of the fourth year.

4. RISK FACTORS—MANAGEMENT OF RISKS

This chapter describes the main risks facing the company with regard to the specific characteristics of its business, of its structure and its organization, of its strategy and its business model. It further describes how the company manages and prevents these risks, depending on their nature.
The chapter has been organized to identify risk factors specific to the Group. They have been arranged by order of priority, according to whether they are of high, secondary, or low importance. Risks in 2015 were more or less identical to those described in the 2014 Management Discussion.

Identification of Risks

For internal controls to be effective, the Group needs to be able to identify and assess the risks to which it is subject, namely the possible occurrence of an event whose consequences could affect the company's human capital, assets, environment, goals, together with its activity, financial condition, financial results (or its ability to achieve its goals) or reputation.

These risks are identified by means of a continuous process, taking into account the changes in the Group's external environment together with the organizational changes rendered necessary by the evolving nature of its markets and the macroeconomic environment. This process is overseen by the Finance division and the Legal Affairs department, with input from all Group operating and corporate departments.

As in previous years, the Audit Committee has reviewed risks liable to have a significant adverse impact on the company's human capital, assets, environment, goals, together with its activity, financial condition, or financial results (or its ability to achieve its goals), or reputation, and considers that there are no other significant risks than the ones discussed below.

The key factor protecting the Group against macroeconomic environment risks is its business model, and in particular:

– a balance of risks, which benefit from natural hedging by the distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and by the very large number of customers throughout the world;

– a balanced revenue mix between revenues from new systems sales, the company's growth driver, and revenues from recurring contracts, consumables and spare parts, a key factor in the company's stability, that provide a cushion in periods of difficult economic conditions.

The gross profit generated by recurring revenues alone covers more than 75% of annual fixed overhead costs (this ratio was 83% in 2015).

In addition, the business model is geared to generating free cash flow in excess of net income—assuming utilization or receipt of the annual research tax credit and competitiveness and employment tax credit applicable in France—enabling the Group to finance its future growth out of its own cash, with its structurally negative working capital requirement after restatement of the claim on the French Administration *(Trésor public)* in respect of the research tax credit and the competitiveness and employment tax credit not received (see note 14 to the consolidated financial statements).

Finally, uncompromising ethics in the conduct of business and respect for each individual are part of the company's core values.

4.1. Macroeconomic Environment Risks

The solutions marketed by the Group represent a sometimes sizable investment for its customers. Decisions depend in part on the general macroeconomic environment and on the state of the sectors of activity in which the customers operate. They could scale back or defer their investment decisions when global economic growth slows or when a particular sector suffers a downturn or is in crisis. The Group is consequently exposed to the global economic cycle.

Risks Connected with the State of the Global Economy

The degraded macroeconomic environment has been the chief risk affecting the Group since the economic and financial crisis in 2008. This unprecedented crisis has severely impaired the situation of countries the world over and companies in all sectors. The resulting sharp slowdown in activity among many Group customers, the deterioration of their financial performance, their uncertain outlook, and their reduced access to credit making it hard for them to finance their investments have meant that many companies have taken steps to reduce costs, cut back or temporarily halt production, close plants, and freeze investments.

The economic, financial, and monetary crisis, of an uncertain scale and duration persisted in 2015 and could continue into subsequent years (see chapters 1 and 14). In addition to the risk of deflation which emerged in the Eurozone in 2014, and which persisted in 2015, several emerging economies (China, Brazil and Turkey especially) slowed down, further deteriorating the global macroeconomic environment.

The constant shift between good and bad news, a lack of visibility, and companies' growing concerns over when a lasting economic recovery is going to take place will weigh more heavily on their investment decisions—and hence on Group revenues and earnings—than the deteriorating macroeconomic conditions.

Risks Related to Geographic Markets and Market Sectors

Apart from periods of severe economic crisis, the risks associated with the company's business activity are naturally hedged by the international reach of the company's sales and services, and by their range over a number of market sectors (chiefly fashion and apparel, and automotive, which respectively accounted for 49% and 33% of revenues from new systems sales in 2015, for a combined total of 82%) with different business cycles and growth rates, serving to offset these risks.

The far-reaching changes being brought about by globalization, such as relocation and repatriation of production, are resulting in revenue loss in one country and gains in another, albeit with a possible time lag. Thanks to its strong presence in the major emerging countries, forecast to generate half of total global growth in the present decade, the Group is well placed to turn this into a vehicle for dynamic growth. The other half of global growth is expected to take place in developed countries where the Group has a historical presence and a large market share.

In 2015, as in 2014, more than 50% of total revenues were generated in five countries: United States (14%), China (11%), Italy (10%), Mexico (9%), and France (7%). The corresponding figures in 2014 were respectively 12%, 11%, 11%, 7% and 8%.

The other two European countries that have suffered severely from the downturn in their economies, Portugal and Spain, accounted for 3% and 2% respectively. Greece's and Russia's shares of revenues are immaterial.

4.2. Economic and Operational Risks Specific to the Company's Business

Lectra designs, produces, and markets full-line technological solutions—comprising software, CAD/CAM equipment, and associated services—specifically designed for industries that use large volumes of fabrics, leather, technical textiles, and composite materials. It addresses a broad array of major global markets, including fashion and apparel, automotive (car seats and interiors, airbags), furniture and a wide variety of other industries, such as aeronautical, marine industries and wind power.

Innovation Risks

This activity demands continuous creativity and a relentless search for innovation. The Group needs to retain its technological leadership in its historical business of CAD/CAM software and equipment and related services, which now account for the vast bulk of its revenues. The Group is the world number one in this sector, with an estimated market share of around 25-30%. In addition, it faces competition from the global software leaders in the new area of Product Lifecycle Management (PLM) for the fashion and apparel sector, which is expected to be a growth driver in the medium term.

The company invests heavily in research and development, which accounts for 9.4% of revenues in 2015, before deduction of the research tax credit and the share of the competitiveness and employment tax credit applicable in France and possible subsidies linked to certain R&D programs. Despite the quality of its engineers and of the project development process, some programs may carry a risk of technical or commercial failure, or may be delayed. In this event, the Group could lose its technological leadership and thus become more exposed to competition.

As a corollary of this policy, the company must ensure both that its innovations are not copied and that its products do not infringe third parties' intellectual property. Moreover, it needs to protect itself against software piracy, which could curb its growth in certain countries.
It has a dedicated team of intellectual property specialists that takes both offensive and defensive measures with regard to patents. Working with the Legal Affairs department, this team tracks down pirated copies of its software and takes the necessary legal action to protect the company's rights.
R&D expenditures are fully expensed in the year. Consequently, the Group's technology assets are valued at zero in the statement of financial position, and there is therefore no risk of impairment.

Production Risks

Maintaining Lectra's R&D and production in France has enabled the Group to meet three challenges, namely: to compete with the low-cost products of its international competitors that had relocated to China and those of its Asian competitors; to boost its competitiveness in the face of a persistently weak US dollar against the euro until mid-2014; and, finally, to boost its margins. The decision has also served to protect its intellectual property. This risk-protection strategy was made possible only through innovation. The Group intends to keep its R&D and production in France.
A substantial portion of the manufacturing of the equipment the company markets is subcontracted, with Lectra providing only the research, development, final assembly, and testing of the equipment that it produces and sells. The technical, logistic, or financial failure on the part of an important subcontractor could result in delays or defects in equipment shipped by the company to its customers. To reduce this risk to a minimum, subcontractors undergo technological, industrial, and financial scrutiny of their situation and performance, prior to selection and then continuously. The assessment is then updated at regular intervals, the frequency depending on the criticality of the product supplied by the subcontractor.

Moreover, the Group may face global shortages of certain components or parts used in the manufacture or maintenance of its products. This risk of a supply chain breakdown could affect its capacity to fulfill customers' orders. This is reviewed continuously, and buffer inventories are maintained of the parts and components concerned, depending on the likely risk of shortage.
There is little risk of the Group being unable to respond to a rapid growth in sales of CAD/CAM equipment and shipments of consumables and spare parts, since the Bordeaux-Cestas (France) manufacturing site has sufficient capacity to increase its output by 50% with no major new investment and around 50 additional staff members.
It should be borne in mind that the economic value of the land and buildings comprising the Bordeaux-Cestas site currently exceeds its historical cost of €12.4 million, but that the site figures in the statement of financial position for a net value of €5.5 million only. Therefore there is no risk of an impairment charge.

4.3. Market Risks

Because of its international presence, foreign exchange risk is the principal market risk to which the Group is exposed.
It is Group policy to manage these risks conservatively, refraining from any form of speculation, by means of hedging instruments.

Specific Foreign Exchange Risks

A substantial proportion of revenues is denominated in various currencies whose fluctuations against the euro constitute a foreign exchange risk for the Group.
The mechanical and competitive effects on the Group's financial statements of fluctuations in these currencies against the euro are particularly large since the site, where the final assembly and testing of the equipment it produces and markets is carried out, is located in France and since most of its subcontractors are located in the Eurozone.

The Group is especially sensitive to variations in the US dollar/euro exchange rate, as well as in other currencies, in particular the Chinese yuan owing to its progressive decorrelation from the dollar, as well as to the growing volume of activity in China, and the major role it now plays in the Group's competitiveness with regard to certain of its Chinese competitors or international competitors whose products are manufactured in China. In 2015, 46% of the Group's consolidated revenues, 82% of its cost of sales, and 67% of its overhead expenses were denominated in euros. These percentages were respectively 34%, 10%, and 15% for the US dollar, and 7% (a portion of revenues generated in China being invoiced in US dollars or in other currencies), 3% and 7% for the Chinese yuan. Other currencies each represented less than 3% of revenues of the cost of sales and of overhead costs.
Currency fluctuations impact the Group at two levels:

a) impact on competitive position: the Group sells its products and services in global markets. It manufactures its equipment in France, whereas many of its competitors—especially its main competitor, a US company—manufacture their equipment in China. As a result, their production costs are primarily in Chinese yuan, while those of the Group are in euros. Meanwhile, sales prices in many markets are in US dollars or euros. The exchange rates between these three currencies have, therefore, a competitive impact (see chapter 1);

b) currency translation impact:
– on the income statement, as accounts are consolidated in euros, revenues, gross profit, and income from operations of a subsidiary conducting its business in a foreign currency are mechanically affected by exchange rate fluctuations when translated into euros,
– on balance sheet positions, this refers primarily to foreign currency accounts receivable, in particular to those between the parent company Lectra SA and its subsidiaries, and it corresponds to the variation between exchange rates at collection date and those at billing date. This impact is recognized in "Foreign exchange income/loss" in the income statement.

Currency risk is borne by the parent company. The Group seeks to protect all of its foreign currency receivables and debts as well as future cash flows against currency risk on economically reasonable terms. Hedging decisions take into account currency risks and trends where these are likely to significantly impact the Group's financial condition and competitive situation. The bulk of foreign currency risk concerns the US dollar.
The Group generally seeks to hedge the risk arising in respect of its net operational exposure to the US dollar (revenues less all expenses denominated in US dollars or strongly correlated currencies) by purchasing dollar puts (calls euros / puts dollars) or by forward currency contracts, when justified by the cost of the hedge. This was not the case in 2015.
Sensitivity to US dollar fluctuations and other currencies is shown in note 33 to the consolidated financial statements. The Group's statement of financial position exposure is monitored in real time; it utilizes forward currency contracts to hedge all relevant receivables and debts.

Interest-Rate Risks

The Group now no longer has any financial debt and therefore has no interest-rate risk exposure.

Stock Market Risks

The Group holds no interests in listed companies other than its own shares held under a Liquidity Agreement (see note 15.2 to the consolidated financial statements), and is therefore not subject to stock market risk.

4.4. Customer Dependency Risks

Each year, revenues from new systems, accounting for 42% of total revenues in 2015, are generated by around 1,600 customers and comprise both sales to new customers and extensions or the renewal of existing customers' installed bases. Revenues from recurring contracts, accounting for 33% of 2015 total revenues, are generated around 6,000 customers. Finally, sales of consumables and spare parts, which account for 25% of 2015 total revenues, are generated on a large proportion of the installed base of more than 6,000 cutters. These figures are more or less identical to those for 2014.

There is thus no material risk of dependence on any particular customer or group of customers, as no individual customer represented more than 7% of consolidated revenues over the last three-year period 2013-2015, and the company's 10 largest customers represented less than 20% of revenues combined, and the top 20 customers less than 25%.

4.5. Legal and Regulatory Risks

The Group markets its products in more than 100 countries through a network of 33 sales and services subsidiaries, supplemented by agents and distributors in countries where it does not have a direct presence. Consequently, it is subject to a very large number of legal, customs, tax, and social regulations in these countries. While the company's internal control procedures provide reasonable assurance of compliance with the prevailing laws and regulations, unexpected or sudden changes in certain rules (particularly regarding the establishment of trade barriers), as well as political or economic instability in certain countries, are all liable to impact the revenues and results of the Group.

From a tax point of view, there are many intra-Group flows requiring the existence of a transfer pricing policy compliant with French, local, and international guidelines (in particular the OECD). Adequate documentation setting forth Group policy in this regard has been put in place.

R&D activity benefits from the French research tax credit *(crédit d'impôt recherche),* which in 2015 represented €6.9 million, or 31% of the total corresponding expense, 22% of income from operations, and 30% of net income. Any significant reduction or abrogation of this tax credit would have an impact on Group income. The changes introduced by the December 29, 2015 Budget Act for 2016 *(loi de finances pour 2016)* have had no impact on the benefits of the research tax credit for the company. Stabilization of the research tax credit mechanism for the duration of the current French President's five-year term of office is one of 35 concrete measures to which the Government is committed within the framework of the National Pact for Growth, Competitiveness and Employment *(Pacte national pour la croissance, la compétitivité et l'emploi).*

In the normal course of its business, the Group may be involved in various disputes and lawsuits.

The Group considers that there are no governmental, judicial, or arbitral proceedings, including all proceedings of which the Group has knowledge, pending or which could threaten it, for which no provision has been made in the financial statements and liable, either individually or severally, to have material impacts on the financial condition or earnings of the Group.

Finally, the company is listed on Euronext and is therefore subject to stock market regulations, particularly those of the *Autorité des Marchés Financiers* (AMF), the French Financial Markets Authority.

4.6. Human Resources Risks

The Group's performance depends primarily on the competence and expertise of its personnel, the quality of its management and its capacity to unite its teams in addressing the Group's strategic challenges.

Despite weak and uncertain macroeconomic conditions, the Group decided to focus on long-term strategy, rather than on short-term profitability. In September 2011, it stepped up its transformation plan, the main pillar of which is an ambitious recruitment program lasting until the end of 2015, and aimed primarily at bolstering its sales and marketing teams, and its software R&D teams, while remaining within tight budget constraints (see chapter 2).

The transformation plan implies a major investment by management and human resources teams, continuous performance assessment and improvement, training, and coaching programs. Measures taken in this regard focus on four main themes, namely: an intensified effort to develop the knowledge and skills of the marketing, sales and customer support teams; sustained internal communications aimed at sharing the company's strategy and challenges; the development of projects capable of unifying different themes aimed at optimizing processes and improving methods; the investment in information systems, focused on sales activity development and tracking strategic objectives, coupled with state-of-the-art IT infrastructures and high-performance networks the world over.

Any departure within the management team or of certain experts could affect the company's operations and financial results, given its size, the breadth of its international reach, the array of market sectors covered, and the components of its business. The Group anticipates these risks by recruiting experienced candidates capable of filling positions left vacant, and through a continuous drive to transfer skills.

The mission of the human resources staff is to limit these risks through five main policies: to attract and retain suitably qualified key personnel to ensure the competitiveness, growth and profitability of the company; to motivate the Group's teams by applying principles of fairness in compensation based on the recognition of merit and performance; to sustain the development of skills; to organize and encourage the transfer of experience thanks to an ambitious and continuous training policy; to emphasize the high degree of flexibility and adaptability of the Group's organization to changes in its markets by continuously reshaping its organization. The risks associated with these challenges are amplified in the current macroeconomic environment.

The Group places a high premium on compliance with existing labor regulations wherever it operates. It regularly audits its subsidiaries to ensure they are compliant with local laws and regulations. Its active policy of transparency in the disclosure of information and in managing its labor relations is one means allowing the Group to create a positive social climate, enabling the company to underpin its development and deal constructively with economic uncertainty.

Significant efforts have been made to identify and evaluate risks, thanks to targeted action plans to ensure that all company activities are carried out safely, in particular in R&D and manufacturing activities as well as maintenance interventions. This general process is overseen by a Safety Committee and implemented by a safety engineer, with the active involvement of management, via accident prevention campaigns, training, and concrete means to increase safety. For example, the company has implemented computer-assisted goods handling aids in all parts of the manufacturing shop; it has banned the use of chemicals that present a cancer hazard; and it has installed automatic defibrillators at its Paris and Bordeaux-Cestas (France) sites and provides training in their use.

Thanks to its accident prevention policy, Lectra has achieved a very good record, with accident frequency and severity rates respectively seven and five times below national indicators in France.

4.7. Credit Risks

The Group is exposed to credit risks in the event of customer insolvency or default. This risk is heightened in the context of the economic crisis and can negatively impact Group profit.

The Group has succeeded in keeping the scale of losses in connection with this risk at a historically low level, representing less than 1% of annual revenues, thanks to the terms of payment it applies, with in particular down payments required at the time of the order and upon shipment, and annual or quarterly payment in advance for recurring contracts.

The Group pays close attention to the security of payment for the systems and services delivered to its customers. It notably manages this risk via a range of customer risk management procedures, which include preventively analyzing its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears.

Sales to countries subject to high economic or political risks are for the most part guaranteed by irrevocable letters of credit confirmed by one of the Group's banks or by bank guarantees.

Furthermore, the Group's dependence on one or more customers with the potential significantly to impact Group profit in the event of default is limited (see paragraph 4.4 above).

Finally, the Group applies a very strict policy in the recognition of impairment on accounts receivable deemed at risk.

4.8. Liquidity Risks

The risk that the Group may have to contend with a short-term cash shortage is close to zero.
The company is debt free. Cash and cash equivalents (€59.3 million) represent a substantial and sufficient liquidity reserve.

4.9. Counterparty Risks

The Group's exposure to counterparty risks arises from its cash holdings and contracts entered into within the framework of its policy on foreign exchange risk hedging. The Group's cash surpluses consist exclusively of interest-bearing sight accounts held with blue-chip banks. The foreign exchange risk-hedging contracts are negotiated exclusively in France with the company's three banks. The corresponding asset values are monitored regularly.

4.10. Information Systems Risks

The Group is exposed to various risks in connection with its information systems and the extensive use made of them, which is essential to the company's operations.
In order to reduce these risks, the Group has placed a manager in charge of maintaining the security of information systems, of mechanisms, as well as of its anti-cybercrime and security policy.
The Group has put in place a business continuity plan incorporating resources designed to guarantee a coherent and rapid restoration of critical data and applications in the event of an incident.
Foremost among these means is the replication of systems in real time in a backup room, physical protection of technical facilities (with a generator, surge protector, redundant climate control, and a permanently monitored fire control system on constant alert), and daily backup on tapes (regularly stored in an offsite safe in a remote building). Virtual server, cluster, and storage bay replication technologies all serve to guarantee very rapid deployment of the business continuity plan.
In addition, the different means of communication in place (including an international private network, remote access and collaborative solutions, and videoconferencing) enable all employees to exchange and share information in a totally secure environment, regardless of location and mode of connection.
Moreover, the Group verifies its information security processes and procedures. It regularly conducts internal audits and commissions a specialized company to assess the security of its facilities every two years. These joint exercises allow it to maintain a high level control over the security of its information system.
Finally, the Group fosters awareness among its staff and trains them in the application of and compliance with security procedures. Access to IT resources is centralized in a single directory, under the exclusive control of a dedicated team guaranteeing the separation of roles in the execution of sensitive transactions.

4.11. Insurance and Risk Cover

The parent company, Lectra SA, oversees the management of risks and the writing of insurance programs for the Group as a whole. Lectra SA's Legal Affairs department formulates Group policy with respect to the evaluation of its risks and their coverage, and coordinates the administration of insurance contracts and claims with respect to legal liability, property damage, and damages and losses incurred during transportation.
The Group exercises its judgment when assessing risks incurred in the conduct of its business, the utility or otherwise of writing insurance cover with an outside insurer and the cost of the guarantees provided. It may therefore decide to review this policy at any time.
The Group works through international brokers whose network has the capacity to assist it throughout its different geographies. Insurance programs are written with reputable insurers of sufficient size and capacity to provide cover and administer claims in all countries. At regular intervals, when programs come due for renewal, the Group invites competing insurance companies to submit bids in order to secure the best possible terms and conditions.
The guarantees provided by these programs are calculated on the basis of estimated possible losses, the guarantee terms generally available on the market, notably for companies of comparable size and characteristics to Lectra, and depending on insurance companies' proposals.

The Group has taken the following insurance coverage:
– legal liability, business continuity, post-delivery, and professional liability (Errors and Omissions in the United States);
– directors and officers liability;
– property damage;
– transported goods.

The Group manages uncertainty with respect to general liability by means of a contractual policy that excludes its liability for indirect damage and limits its liability for direct damage to the extent allowed by applicable regulations. General liability cover is capped at €25 million per claim and per year.

Given the use made of the equipment commercialized by it, the Group is exposed to the risk of injury to its customers' employees while operating certain items of equipment supplied by it. It therefore takes all appropriate steps to ensure that these meet the strictest personnel safety standards—a major and constant concern of the Group; however, there is no such thing as zero risk. The Group's product liability insurance contract covers it against adverse monetary consequences arising from claims that could result from its sales of systems or provision of services.

The property damage program provides for payment of claims for material damage to buildings or physical assets in accordance with the declared value of each of its sites worldwide, which the Group reports annually. The program comprises additional guarantees to finance the continuity or reorganization of activity following a loss event. Special emphasis is placed on protecting the Bordeaux-Cestas (France) site, which houses research and development and production activities as well as critical services for the Group as a whole. The program notably comprises "business continuity" cover against financial loss in the event of a major accident affecting the Bordeaux-Cestas site and jeopardizing the continuity of all or part of the Group's business. This program is backed up by risk prevention measures at this site.

5. OFF-BALANCE SHEET ITEMS

Off-Balance Sheet Commitments Relating to the Group Financing

The parent company, Lectra SA, provided a total of €2.9 million at December 31, 2015 (€2.2 million at December 31, 2014) in sureties to banks, mainly to guarantee loans made by the latter to the company's subsidiaries and in guarantees given to customers or to lessors. These sureties were previously authorized by the Board of Directors, as required under article L. 225-34 al. 4 of the French Commercial Code.

Exchange risk hedging instruments of balance sheet positions at December 31, 2015 were comprised of forward sales or purchases of foreign currencies (mainly US dollars, British pounds and Hong Kong dollars) for a net total equivalent value (sales minus purchases) of €4.7 million (€7.5 million at December 31, 2014).

Off-Balance Sheet Commitments Relating to Operating Activities

The only off-balance sheet commitments relating to operating activities concern normal office, motor vehicle and office equipment leasing and rental contracts, which may be cancelled in accordance with contract terms. These commitments are discussed in the notes to the consolidated financial statements.

6. APPROPRIATION OF EARNINGS

In its report on fiscal year 2012, the Board stated that, barring further changes to the taxation of dividends in France, the total dividend was expected to represent a payout ratio of around 33% of net income (excluding non-recurring items), the remaining 67% serving to finance the company's growth internally. Exceptionally, this ratio could rise to or exceed 50% until the investments for the future have produced their impact in full, insofar as they are already taken into account in the computation of net income and free cash flow.

The Board of Directors has proposed to increase the dividend to €0.30 per share (+20%), in respect of fiscal 2015. The gross dividend represents a payout ratio of 40% of 2015 net income and a yield of 2.5% based on the December 31, 2015 closing share price.

Previous dividends were €0.25 per share in respect of fiscal 2014 and €0.22 in respect of fiscal 2013, 2012 and 2011.

Subject to approval by the annual Shareholders' Meeting of April 29, 2016, the dividend will be made payable on May 6, 2016.

7. SHARE CAPITAL—OWNERSHIP—SHARE PRICE PERFORMANCE

Change in Share Capital

At December 31, 2015, the share capital totaled €30,786,399, divided into 30,786,399 shares with a par value of €1.00.

Share capital has increased by €457,285 (with a total share premium of €1,736,568) due to the creation of 457,285 shares since January 1, 2015, resulting from the exercise of stock options.

On February 10, 2015, Delta Lloyd Asset Management NV (Netherlands), acting on behalf of its funds and clients under management, reported that it had decreased its shareholding below the thresholds of 10% of the company's capital stock and voting rights, and that, at that date, it held 9.77% of the capital stock and 9.65% of the voting rights.

In February 2015, Schroder Investment Management Ltd (UK), acting on behalf of its funds and clients under management, also reported that it had decreased its shareholding below the thresholds of 10% of the company's capital stock and voting rights. On December 9, 2015, Schroder reported that it had decreased its shareholding below the thresholds of 5% of the company's capital stock and voting rights, and that at that date it held 4.86% of the capital stock and 4.81% of the voting rights.

At the date of publication of this report, and to the company's knowledge, the main shareholders are:

– André Harari and Daniel Harari, who together hold 36.1% of the capital and 35.7% of the voting rights;

– Delta Lloyd Asset Management NV, which holds more than 5% (but less than 10%) of the capital and the voting rights, on behalf of investment funds and clients under management.

No other shareholder has reported holding more than 5% of the share capital and voting rights.

Treasury Shares

At December 31, 2015, the company held less than 0.1% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement contracted with Exane BNP Paribas.

All of the information required under article L. 225-211 of the French Commercial Code concerning purchases and sales by the company of its own shares is presented in chapter 10 below.

Granting of Stock Options—Potential Capital Stock

The Extraordinary General Shareholders Meeting of April 30, 2014 authorized the creation of a new stock option plan for a maximum of 1.8 million options for the same number of shares with a par value of €1.00, in accordance with the conditions described in the report of the Board of Directors to said meeting and in its first resolution, and automatically terminated the authority given to it by the Extraordinary Shareholders' Meeting of April 27, 2012. The exercise price may not be less than the average opening price of Lectra shares listed for the 20 stock market trading sessions preceding the options' grant date.

No subsidiary of Lectra has opened a stock option or stock purchase plan.

2015 Stock Option Plan

On June 12, 2015, the Board of Directors granted a maximum of 534,396 options, at an exercise price of €13.75 per share to 145 beneficiaries in respect of the fulfilment of their annual performance targets set for 2015, corresponding to a maximum number of options. The definitive number of options is equal to the maximum number multiplied by the percentage fulfilment of targets set for each beneficiary for 2015. The options representing the difference between those initially granted and those actually granted in response to actual performance by the beneficiaries are cancelled and placed at the disposal of the Board of Directors.

At the date of this report, the calculations of actual performance in 2015, based on the Group's consolidated financial statements, have been finalized for almost all the beneficiaries, reducing the number of options at December 31, 2015 to 176,588 and the number of beneficiaries to 143. 354,168 options have thus been cancelled. The calculations remaining to be finalized represent a maximum of 2,404 options, of which a portion could be cancelled.

Moreover, 3,640 options have ceased to be valid due to the departure of two beneficiaries in 2015.

The Board of Directors of June 12, 2015 also granted 47,024 options at an exercise price of €13.75 per option to 53 winners of the 2014 Lectra Worldwide Championship, of which 388 options ceased to be valid due to the departure of one beneficiary in 2015.

In total, the Board of Directors thus granted a maximum of 581,420 options to 179 beneficiaries, reduced to 223,224 options and 176 beneficiaries, in respect of the 2015 stock option plan, at December 31, 2015.

All of the options granted concerned Group employees. The only two executive directors, André Harari and Daniel Harari, have held no stock options since 2000.

These options vest over a period of four years from January 1, 2015 and are conditional upon the beneficiary's presence in the Group at the end of each annual period (the beneficiary being required to retain links with the company or with one of its affiliates in the form of an employment contract or as an executive director).

The options are subject to a four-year lock-up period applicable to all the beneficiaries of these plans.

They are valid for a period of eight years from the date of granting.

Options Outstanding at December 31, 2015

457,285 options of the different stock option plans outstanding at December 31, 2014 were exercised in 2015 and 34,366 options have ceased to be valid following the departure of their beneficiaries. Moreover, 240 options of the 2014 plan have been reinstated following the rectification of the calculation of the actual performance of a beneficiary.

In total, at December 31, 2015, 275 employees are beneficiaries of options: 227 employees are beneficiaries of 1,789,501 options outstanding and 48 former employees still hold 63,749 options (respective figures at December 31, 2014 are: 238, 201, and 37).

Each stock option gives the beneficiary the right to acquire one new share with a par value of €1.00, at the exercise price decided by the Board of Directors on the date of granting. If all of the options were exercised, regardless of whether these are fully vested or have not yet vested, and regardless of their exercise price relative to the market price of Lectra shares at December 31, 2015, the company's capital (at par value) would increase by a total of €1,853,250, associated with a total additional paid-in capital of €11,094,156.

At the same date, the maximum number of shares liable to comprise the capital stock, including all new shares that may be issued following the exercise of stock options outstanding and eligible for the subscription of new shares, is 32,639,649, consisting of:

– capital stock: 30,786,399 shares;
– stock options: 1,853,250 shares.

The notes to the consolidated financial statements contain full details of the vesting conditions, exercise prices, and exercise dates and conditions of all outstanding stock options at December 31, 2015.

The Board of Directors' special report, as mandated under article L. 225-184 of the French Commercial Code, is provided in a separate document (available in French only).

Absence of Bonus Shares

The company has never submitted a plan to grant bonus shares for approval to the Shareholders' Meeting. Consequently, the Board of Directors has not prepared a special report on the granting of bonus shares as provided under article L. 225-197-4 of the French Commercial Code.

Share Price Performance and Trading Volumes

The company's share price at December 31, 2015 was €12.10, up 32% compared with December 31, 2014 (€9.14). During the year, it reached a low of €8.98 on January 6 and a high of €14.65 on July 30.
The CAC 40 index and the CAC Mid & Small index rose 9% and 18% respectively in 2015.
According to Euronext statistics, the number of shares traded on Euronext (8.7 million) was up 28%, and trading volumes (€101.9 million) up 86% compared with 2014. These figures do not include trading on any other trading platform.
In its press release of March 30, 2015, Lectra confirmed that it is eligible for inclusion in French SME ("PEA-PME") equity savings plans qualifying for tax relief in France dedicated to investments in European small and mid-cap companies.

8. CORPORATE GOVERNANCE—CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY POLICY

The company has set itself the objective of implementing the best corporate governance practices.

Executive Directors' Compensation

The MEDEF and AFEP published a set of recommendations on October 6, 2008, concerning the compensation of executive directors of companies whose shares are listed for trading on a regulated market, for the guidance of compensation committees (these recommendations now being consolidated into the AFEP-MEDEF Code).
These recommendations:
– spell out principles for setting the compensation of executive directors of listed companies;
– prohibit the simultaneous holding of a position as executive director and an employment contract;
– place a cap on one-time termination payments ("golden parachutes") to two years' compensation, and abolish the granting of indemnities in the event of voluntary resignation and in the event of failure;
– strengthen the rules governing pension plans and place a cap on additional pension benefits;
– make stock option plans for executive directors conditional on the extension of such option plans to all employees or to the existence of mechanisms entitling all employees to a share of profits;
– terminate the granting of bonus shares unrelated to performance to executive directors; the latter should also purchase shares at market price additional to any performance-related shares granted to them;
– make compensation policies more transparent by means of a standardized disclosure format.
The French government further called on the Boards of Directors of the companies concerned to formally accept these recommendations and to ensure that they are enforced rigorously.
In response to this demand, the company issued a statement on November 28, 2008, declaring that:
– it had already been in spontaneous compliance with these recommendations for many years with regard to André Harari and Daniel Harari in their respective capacities as Chairman of the Board of Directors and Chief Executive Officer. In particular, they have never combined their positions as executive directors with an employment contract, are not entitled to any component of compensation, indemnity, or benefit owed or liable to be owed to them in virtue of a termination or change of their functions, or to any supplementary pension plan *(retraite chapeau)* or additional defined benefit pension plan, stock options or bonus shares;
– it had decided to adopt the recommendations issued jointly by the AFEP and the MEDEF as the code of corporate governance to which the company shall voluntarily refer in matters of compensation of its executive directors, and to comply with its provisions or, should any of these provisions be deemed inappropriate with respect to the specific circumstances of the company, to explain the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code.

Policy Governing the Compensation of Executive Directors

This subject is discussed in detail in the report of the Chairman on internal control procedures and risk management and on corporate governance appended to

this report in chapter 3 "Principles and rules adopted by the Board of Directors to determine the compensation and benefits in kind granted to Executive Officers".
The sole executive directors *(dirigeants mandataires sociaux)* are André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer. They are not under any employment contract to the company and they are not the beneficiaries of any special arrangement or specific benefits concerning deferred compensation, severance compensation, or pension liabilities committing the company to pay any form of indemnity or benefit in the event of termination of their functions, or at the time of their retirement, or more generally subsequent to the termination of their functions.
The compensation policy as decided by the Board of Directors is strictly identical for the Chairman and for the Chief Executive Officer since the separation of their functions in 2002, as was previously the case. In particular it takes into account the specific duties of the Chairman of the Board of Directors, who devotes the necessary time to these duties. The specific duties of the Chairman of the Board of Directors are set out in the internal rules of the Board in chapter 1.5 "Chairman's specific duties". Consistent with the prescriptions of these Internal Rules and Procedures, he holds no directorship in other companies.
Acting in concert, the Chairman and the Chief Executive Officer are jointly accountable for the outcome of the strategy pursued by the Group under their leadership. Their significant stake in the capital ensures their interests are strongly aligned with those of the shareholders and the financial performance of the Group.
Their compensation comprises a fixed portion and an annual variable portion. It does not include any multi-year variable portion.
The company does not award them bonuses in any form.
This policy is clear, consistent with the long-term strategy, objectives and challenges of the Group and directly linked to its performance. It has proved its worth both in tough years and in years of record profits. Thus, over the ten year period from 2006-2015, the actual compensation has been on average 94% of the amount tied to fulfilment of the annual targets. This percentage varied between 56% and 160%.

2015 Compensation

Each year the Board of Directors first determines each year the amount of target-based total compensation. This amount had remained unchanged at €475,000 for the eight fiscal years 2005 through 2012. The fixed portion had been unchanged since 2003 (€190,000).
At its meeting on February 12, 2013, the Board had decided to increase the total compensation of the Chairman of the Board of Directors and the Chief Executive Officer progressively over three years to €600,000 conditional upon fulfilment of annual targets, i.e. to: €520,000 in 2013, €560,000 in 2014, and €600,000 in 2015. The fixed portion of this compensation was increased to €208,000 in 2013 (+9.5% relative to 2012), €224,000 in 2014 (+7.7% relative to 2013), and €240,000 in 2015 (+7.1% relative to 2014).
Conditional upon the fulfilment of annual targets, variable compensation is equal to 60% of total compensation. Variable compensation is set in accordance with the following four clear and complementary quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets, reflecting the company's strategy of profitable sales activity and earnings growth and determined according to clear criteria.
In its meeting of February 11, 2015, the Board maintained the four performance criteria that had been set for 2014 for fiscal 2015 (these criteria had been in force since 2011, with, however, a change in the relative weighting of each one in 2014, placing special emphasis on the realization of the company's strategy of profitable sales activity growth): (i) the criterion measuring the contributive value of growth in sales activity (accounting for 50%); (ii) consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 30%); (iii) consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after restatement of certain items (accounting for 10%); and (iv) a criterion measuring the contributive value of recurring contracts (accounting for 10%). The corresponding calculations eliminate the impact of actual currency variations relative to those used to set the targets.
For each of these four criteria, the corresponding variable compensation is equal to zero below certain thresholds; if annual targets are met, it is 100%; and it is capped at 200% if annual targets are exceeded. Between these thresholds, it is calculated on a linear basis. The results

are then weighted for each criterion. Only the annual targets and corresponding thresholds are revised each year on the basis of Group targets for the fiscal year. Consequently, variable compensation is equal to zero if none of these thresholds is met, and is capped at 200% of target-based variable compensation if the annual targets are exceeded on all criteria and result in the ceiling of 200% for each of them.

Total compensation may therefore vary depending on performance, ranging from 40% to 160% of the total target-based compensation.

Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent and in line with the evaluation of executive directors' performance, with progress made in implementing the company's medium-term strategy, general macroeconomic conditions, and in particular those of the geographic markets and market sectors in which the company operates. After the close of each fiscal year, the Committee verifies the annual application of these rules and the final amount of variable compensation, on the basis of the audited financial statements.

These criteria and targets apply also to the three members of the Executive Committee who are not executive directors (their variable compensation being equal to 35% of their total compensation, conditional on fulfilment of their annual targets), and to around fifteen managers of the parent company Lectra SA; only the relative weighting given to each criterion and the portion relating to target-based variable compensations, which is set individually for each manager, vary. For the Chief Financial Officer and the Chief Human Capital Officer, Chief Information Officer, both of whom are members of the Executive Committee, together with certain managers of their teams, the weighting of criteria is the same as for the Chairman of the Board of Directors and the Chief Executive Officer. For the Executive Vice President Sales, the fourth member of the Executive Committee, and for certain managers on his team, the criterion serving to measure the contributive value of growth in sales activity accounts for 70%, the criterion serving to measure the contributive value of recurring contracts accounts for 20% and consolidated income before tax for 10% (the consolidated free cash flow criterion is excluded from the calculation).

Application of performance-related criteria of annual variable compensation in 2015

Criteria(1)		Weighting	Minimum as percentage of target	Maximum as percentage of target	Percentage achieved
100% quantitative targets	Weighted contribution of growth in sales activity	50%	0%	200%	42%
	Consolidated income before tax(2)	30%	0%	200%	77%
	Consolidated free cash flow(3)	10%	0%	200%	101%
	Weighted contributive value of recurring contracts	10%	0%	200%	80%
	Total quantitative targets	100%	0%	200%	62%
0% qualitative objectives	Total qualitative objectives	-	-	-	-
Total actual compensation as a percentage of compensation conditional on fulfilment of annual targets					77%

(1) The corresponding calculations eliminate the impact of currency fluctuations.
(2) Before tax, excluding financial and non-recurring items.
(3) Excluding financial income and expenses and non-recurring items, income tax, and after restatement of certain items.

In 2015, the percentage obtained for each of the four criteria is as follows: (i) 42% for the contributive value of growth in sales activity (71% in 2014); (ii) 77% for the consolidated income before tax (71% in 2014); (iii) 101% for the consolidated free cash flow (200% in 2014); and (iv) 80% for the contributive value of recurring contracts (108% in 2014).

In total, the percentage obtained for the variable portion of compensation of the Chairman of the Board of Directors and the Chief Executive Officer represented

62% of the amount tied to the fulfilment of annual targets (88% in 2014). Consequently, the total actual compensation due in respect of 2014 was 77% of the target-based compensation (93% in 2014).

2016 Compensation

Last year, the Board stated its intention to review the compensation of the two executive directors every three years. This was therefore to be reviewed and set for the period 2016-2018.
However, despite the significant development of the company's financial results between 2013 and 2015, as reflected in its strengthening global leadership and competitiveness, the steep increase in shareholders' equity thanks to its free cash flow, the strengthening of its key operating fundamentals, expanding sales, earnings and operating margins, in spite of persistently tough macroeconomic conditions, the Chairman and the Chief Executive Officer have expressed the wish that the Board maintain their total compensation unchanged for fiscal 2016.
This is consistent with the extension to include 2016 of the current roadmap, which was originally intended to cover the three-year period from 2013 through 2015 on the one hand, as recalled in chapter 2, and with the fact that revenues and earnings have fallen below the roadmap's original financial goals for the completion of this roadmap on the other.
This is consistent with the extension to include 2016 of the current roadmap, which was originally intended to cover the three-year period from 2013 through 2015, on the one hand, and with the fact that revenues and earnings have fallen below the roadmap's original financial goals. The Board of Directors has therefore maintained unchanged their total compensation, together with the fixed and variable portions of this compensation.
The Board of Directors has therefore maintained unchanged their total compensation of €600,000 conditional upon fulfilment of annual targets. The fixed portion will continue to represent 40% of total compensation conditional upon fulfilment of annual targets (i.e. €240,000) and the variable portion 60% (i.e. €360,000).
The Board has also maintained unchanged for 2016 the four performance criteria used to determine their variable compensation, and their relative weighting, as set for 2015 and 2014.
The compensation of the Chairman and of the Chief Executive Officer will be reviewed and set by the Board of Directors at its meeting on February 9, 2017 for the three-year period from 2017 through 2019, coinciding with the period covered by the new strategic roadmap.

Details of Individual Compensation of Each Executive Director

The table below presents the fixed and variable compensation (gross amounts before employee contribution deductions) assuming fulfilment of annual targets and the actual compensation effectively earned, in respect of each fiscal year:

	2015			2014		
(in euros)	Compensation assuming fulfilment of annual targets	Actual compensation earned in respect of the fiscal year	% Actual compensation/ Compensation assuming fulfilment of annual targets	Compensation assuming fulfilment of annual targets	Actual compensation earned in respect of the fiscal year	% Actual compensation/ Compensation assuming fulfilment of annual targets
André Harari, Chairman of the Board of Directors						
Fixed compensation	240,000	240,000	100%	224,000	224,000	100%
Variable compensation	360,000	224,000	62%	336,000	294,445	88%
Total	600,000	464,000	77%	560,000	518,445	93%
Daniel Harari, Chief Executive Officer						
Fixed compensation	240,000	240,000	100%	224,000	224,000	100%
Variable compensation	360,000	224,000	62%	336,000	294,445	88%
Total	600,000	464,000	77%	560,000	518,445	93%

The table below shows fixed and variable compensation (gross amounts before deduction of social security contributions), benefits in kind, and directors' fees due in respect of the fiscal year and amounts actually paid in the year:

(in euros)	2015 Amounts earned in respect of the fiscal year[1]	2015 Amounts paid in the year[1]	2014 Amounts earned in respect of the fiscal year[1]	2014 Amounts paid in the year[1]
André Harari, Chairman of the Board of Directors				
Fixed compensation	240,000	240,000	224,000	224,000
Variable compensation	224,000	294,445	294,445	240,041
Directors' fees[2]	40,000	40,000	40,000	40,000
Benefits in kind[3]	9,310	9,310	10,550	10,550
Total	513,310	583,755	568,995	514,591
Daniel Harari, Chief Executive Officer				
Fixed compensation	240,000	240,000	224,000	224,000
Variable compensation	224,000	294,445	294,445	240,041
Directors' fees[2]	40,000	40,000	40,000	40,000
Benefits in kind[3]	12,200	12,200	16,327	16,327
Total	516,200	586,645	574,772	520,368

(1) Differences between amounts earned in respect of 2015 and 2014 and the amounts paid in 2015 and 2014 stem from lags in the payment of this compensation. Allowance for variable compensation due in respect of a given fiscal year is made in the financial statements of the said fiscal year, the final amount being calculated after closure of the annual accounts and paid in the following fiscal year.
(2) Directors' fees in respect of fiscal 2015 shown here are subject to approval by the Shareholders' Meeting of April 29, 2016.
(3) The amounts shown for benefits in kind reflect the value for tax purposes of the use of company cars (€9,310 for André Harari and €12,200 for Daniel Harari in 2015) and, for 2014, payments to life insurance policies for Daniel Harari (€4,646 until June 30, 2014, the date at which this contract ended).

These amounts were borne and paid in full by Lectra SA. The executive directors received no compensation or special benefits from subsidiaries controlled by Lectra SA under article L. 233-16 of the French Commercial Code. (For the record, Lectra SA is not controlled by any other company.)

In accordance with the AFEP-MEDEF Code, the table below lists the existence or otherwise of an employment contract, additional pension entitlements, benefits payable at the start of contract, or on termination or reassignment, and provision of payment in return for non-competition clauses.

	André Harari, Chairman of the Board of Directors	Daniel Harari, Chief Executive Officer
Employment contract	None	None
Additional pension entitlements	None	None
Entitlement to payment or benefits in the event of termination or reassignment	None	None
Payment in return for non-competition clause	None	None

Aggregate and Individual Attendance Fees Paid to Directors and Rules Governing Their Distribution

Directors' fees paid are detailed in the table below.
The total figure of €160,000 approved by the General Meeting of Shareholders on April 30, 2015, in respect of fiscal 2014 was apportioned equally. The total amount of Directors' fees had been unchanged from fiscal 2006 to fiscal 2012 (€100,000).

Directors' fees in respect of fiscal 2015 are presented subject to approval by the Shareholders' Meeting. The Board has recommended that their total amount remain unchanged. They will be divided equally among the directors (€40,000, or one quarter of the total, for each director) as in previous years.

(in euros)	2015	2014
André Harari, Chairman of the Board of Directors	40,000	40,000
Daniel Harari, Chief Executive Officer	40,000	40,000
Anne Binder, Director	40,000	40,000
Bernard Jourdan, Director	40,000	40,000
Total	160,000	160,000

The company has applied this method of allocation, distributing the fees equally among the Directors and with no variable portion, for very many years. It has proved its effectiveness and reinforced the collegiate sense and spirit of solidarity among the Directors. It acknowledges the Directors' 100% attendance rate at Board meetings and the Board Committees. Moreover, the Board considers that the duties of its members' extends beyond the meetings of the Board and its Committees. Directors receive no additional attendance fees for their attendance at meetings of the Audit, Compensation and Strategic Committees.
The Board has nevertheless decided to comply with the corresponding recommendation of the AFEP-MEDEF Code, starting in fiscal 2016, by:
– adopting a procedure for the allocation of the total directors' fees decided by the Shareholders' Meeting, having due regard for the effective attendance of directors at meetings of the Board and Committees, with a predominantly variable share;
– apportioning an additional amount in directors' fees to non-executive directors for membership of the Board's specialized Committees;
– apportioning an additional amount to the Chairs of the Audit Committee and the Compensation Committee (André Harari, Chairman of the Strategic Committee, will receive no additional compensation in respect of this chairmanship).
Given the increase in the Board's membership from four to five (see Chairman's Report on internal control procedures and risk management, and on corporate governance) and in light of these new rules, the Board has proposed that the total amount of directors' fees be increased to €230,000 for 2016 and future years, until decided otherwise by the Shareholders' Meeting.
Once decided on, the directors' fees will be apportioned as follows:
– €40,000 to each of the five directors for their attendance at meetings of the Board of Directors;
– €9,000 for attendance by the three independent directors at meetings of the three Board Committees, plus €1,500 for the Chairmen of the Audit Committee and the Compensation Committee.
The variable portion actually apportioned to each director (62.5% of each amount) will be based on an attendance percentage equal to the number of meetings effectively attended by the director divided by the number of meetings held.

Policy Governing the Granting of Stock Options to all Beneficiaries and Specific Policy Governing the Granting of Stock Options to Executive Directors

Stock options are reserved for persons within the company or an affiliated company that are linked by an employment contract and/or in their capacity as an executive director, and who are entitled by law to receive stock options, whose responsibilities, missions, and/or performance justify their being given a stake in the capital stock of the company by the granting of stock options. Additional disclosure on options granted is provided in chapter 7 of this report.

The only two executive directors, André Harari and Daniel Harari, hold no stock options. In compliance with French legislation, neither of them has been granted or has been entitled to receive stock options since they each individually passed the threshold of 10% ownership of capital stock in 2000.

Consultation of Shareholders on Compensation of Executive Directors

As recommended in the June 2013 amended version of the AFEP-MEDEF Code, shareholders are consulted on the following items of individual executive directors' compensation (say on pay), namely:

– fixed portion;

– annual variable portion and, where applicable, the multi-year variable portion with targets contributing to the setting of said variable portion;

– exceptional compensation;

– stock options, performance-based shares and all other items of long-term compensation;

– start-of-contract or termination payments;

– additional pension entitlements;

– fringe benefits of all nature.

In the event of a negative vote, the Board of Directors, acting on the opinion of the Compensation Committee, is required to vote on the matter and to publish immediately on the company's website a statement indicating how it intends to respond to the wishes of the shareholders.

Shareholders are therefore invited to give their advice on the compensation of the company's Chairman of the Board and the Chief Executive Officer, solely comprising the following components:

– the fixed portion;

– the annual variable portion together with the targets contributing to its determination;

– fringe benefits of all nature.

Details of these components are provided in the paragraphs on "Policy Governing the Compensation of Executive Directors" and "Details of Individual Compensation Paid to Each Executive Director", above.

None of the following components of compensation apply to the company: executive directors' compensation does not contain any multi-year variable portion or exceptional compensation, stock options, performance-related shares or other long-term component of compensation, indemnity relating to the taking up or termination of their functions, or supplementary retirement plan.

This consultation of shareholders is the subject of the thirteenth and fourteenth resolutions of the Shareholders' Meeting of April 29, 2016.

Appointments and Other Directorships Held by Directors and Executive Directors in the Year under Review

André Harari holds no directorship or general management position in any company other than the parent company, Lectra SA.

Daniel Harari holds no directorship or general management position in any company other than the parent company Lectra SA and certain of its international subsidiaries. He is Chairman of the Board of Directors of Lectra Sistemas Española SA and of Lectra Italia SpA, and President of Lectra Systems (Shanghai) Co. Ltd, all of which are direct subsidiaries of Lectra SA, located respectively in Spain, Italy, and China. He is also a member of the Board of Directors of Lectra USA Inc., a direct subsidiary of Lectra SA in the United States.

Anne Binder is currently a member of the Strategic Committee of AM France, which manages Alternativa (new European exchange market for small and medium-sized growth companies), member of the Board of Directors of Oceasoft and Senior Advisor of Tikehau. She is also Vice-Chairman of the French National Chamber of Financial Expert Consultants. These positions are held in France.

Bernard Jourdan holds no outside directorship.

Nathalie Rossiensky, who will be appointed as the fifth director, holds no outside directorship.

Transactions Subject to Article L. 621-18-2 of the French Financial and Monetary Code and Article 223-22 of the General Regulation of the *Autorité des Marchés Financiers*

No trading in Lectra's shares, as referred to in article L. 621-18-2 of the French Financial and Monetary Code and article 223-22 of the General Regulation of the AMF, was carried out in 2015 by the directors.

Édouard Macquin, Jérôme Viala, and Véronique Zoccoletto, who are members of the Executive Committee, and who are the only senior executives (other than the directors) having the power to make management decisions regarding the company's development and strategy and with regular access to inside information concerning the company, exercised stock options and sold Lectra shares on Euronext as follows:

	Date	Number	Price (€)	Value (€)
Édouard Macquin				
Exercise of stock options	February 17 to 20, 2015	4,928	6.30	31,046
Exercise of stock options	February 17 to 20, 2015	10,443	4.10	42,816
Exercise of stock options	September 11, 2015	7,157	6.25	44,731
Sale of shares	February 17 to 20, 2015	4,928	11.34	55,901
Sale of shares	February 17 to 20, 2015	10,443	11.21	117,061
Sale of shares	September 11, 2015	7,157	11.34	81,135
Jérôme Viala				
Exercise of stock options	February 16, 2015	5,129	6.30	32,313
Exercise of stock options	February 17, 2015	10,000	4.10	41,000
Exercise of stock options	February 25, 2015	29,683	4.10	121,700
Exercise of stock options	March 20, 2015	36,000	2.50	90,000
Exercise of stock options	November 3 to 6, 2015	6,500	2.50	16,250
Sale of shares	February 16, 2015	14,167	11.06	156,637
Sale of shares	February 17, 2015	19,585	11.02	215,838
Sale of shares	November 3 to 6, 2015	6,500	10.83	70,369
Véronique Zoccoletto				
Exercise of stock options	February 24 to 25, 2015	16,000	2.50	40,000
Sale of shares	February 24 to 25, 2015	16,000	11.83	189,205

Compliance with the Transparency Directive of the *Autorité des Marchés Financiers*—Regulated Disclosure

The company complies with the financial disclosure obligations of companies listed on Euronext, which took effect on January 20, 2007. These obligations are spelled out in Title 2, Book II, of the General Regulation of the AMF concerning periodic and continuous disclosure. The General Regulation defines regulated disclosure in the form of a list of reports and information to be disclosed by companies, together with rules governing its dissemination and storage. Lectra has recourse to the services of NASDAQ OMX, a professional information provider approved by the AMF that satisfies the criteria laid down in the General Regulation, to publish and file information to the AMF. At the same time, the regulated information is published on the company's website.

Fees Paid to Group Auditors and Companies in Their Network

The Lectra Group booked, in 2015, a total of €797,000 in fees paid for the audit of the financial statements of all Group companies, including €473,000 to PricewaterhouseCoopers Audit, €253,000 to KPMG, and €71,000 to other auditors, excluding other services provided. The corresponding charge recognized in 2014 was €743,000.

Total fees paid to the Group Statutory Auditors in respect of the audit of the financial statements and other services provided to subsidiaries by members of their networks for 2015 amounted to €928,000, including €618,000 to PricewaterhouseCoopers Audit and €310,000 to KPMG.

	PwC				KPMG			
	Amount		%		Amount		%	
(in thousands of euros)	2015	2014	2015	2014	2015	2014	2015	2014
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
Issuer (Lectra SA)	143	143	23%	24%	125	125	40%	42%
Fully-consolidated subsidiaries	312	294	50%	50%	128	129	41%	44%
Others services directly related to the Auditors' engagement								
Issuer (Lectra SA)	18	18	3%	3%	-	-	0%	0%
Fully-consolidated subsidiaries	-	-	0%	0%	-	-	0%	0%
Sub-total	473	455	77%	77%	253	254	82%	86%
Other services to consolidated entities								
Legal, tax and social reviews[1]	145	133	23%	23%	57	42	18%	14%
Sub-total	145	133	23%	23%	57	42	18%	14%
Total	618	588	100%	100%	310	296	100%	100%

(1) These missions mostly relate to tax compliance services provided by members of the network to foreign subsidiaries of the company.

Information Concerning Items Covered by Article L. 225-100-3 of the French Commercial Code as Amended by the March 31, 2006, Public Tender Offers Act

Article L. 225-100-3 requires companies whose securities are eligible for trading on a regulated market to disclose and where applicable explain the following items if they are liable to be material in the event of a public tender offer:

a) the structure of the company's capital stock;

b) any restrictions contained in the by-laws on the exercise of voting rights and on the transfer of shares, or clauses contained in agreements notified to the company in application of article L. 233-11 of the French Commercial Code;

c) direct or indirect shareholdings in the capital of the company known to it in virtue of articles L. 233-7 and L. 233-12;

d) the list of holders of all securities carrying special control rights and the description thereof;

e) control mechanisms provided for in the event of an employee share ownership system, when the employees do not exercise controlling rights;

f) agreements between shareholders that are known to the company and that may entail restrictions on the transfer of shares and on the exercise of voting rights;

g) the rules governing the appointment and replacement of members of the Board of Directors and amendments to the company by-laws;

h) the powers of the Board of Directors and in particular concerning the issuance or buyback of shares;

i) agreements entered into by the company that will be modified or terminated in the event of change of company control;

j) agreements providing for the payment of indemnities to members of the Board of Directors or employees in the event of resignation or dismissal without genuine and serious cause, or if their employment is terminated by reason of a public tender offer.

Under present conditions, none of these items is liable to be of consequence in the event of a public tender offer for the shares of Lectra SA.

Corporate Social and Environmental Responsibility Policy

Disclosures required under the July 12, 2010 "Grenelle II" Act (Law nº. 2010-788) are presented in a separate report (available in French only) appended to the Board of Directors' report submitted to the Annual Shareholders' Meeting on April 29, 2016.

The company had designated PricewaterhouseCoopers to verify disclosures in respect of fiscal 2015.

Diversity, Ethical Values and Core Values

Uncompromising ethical rigor in the conduct of its business activities, and respect for the individual, are fundamental values of Lectra.

Lectra rejects all notion or practice of discrimination between people, notably on grounds of sex, age, handicap, ethnic origin, social origin, or nationality. This principle ensures fair treatment in terms of equal career opportunities and equal pay.

As for diversity, it has been one the most fundamental features since its very beginning and extends well beyond barring discrimination of any sort. Lectra's teams operate in 36 countries and represent more than 50 nationalities. They work side by side every day, drawing enhanced creativity and vigor from their differences.

Lectra's strong corporate culture is built on five core values shared by all Lectra team members worldwide: entrepreneurship, leadership, innovation, excellence and customer care. Open-minded and dynamic, it emphasizes teamwork transcending geographic and cultural barriers, as well as a keen sense of individual responsibility. It has forged a company with a strong identity, attuned to the evolution of its customers, its markets, and their macroeconomic cycles.

Whenever possible, Lectra facilitates internal mobility, with appropriate support, in order to enrich its employees' know-how and preserve their employability.

Social Policy

The Group's ambition is to develop and consolidate its position as world leader. Building on its proximity to its customers, it forges long-term relationships with them and supports them in their development, through its integrated solutions combining software with CAD/CAM equipment and associated services to address their strategic challenges, by investing continuously in innovation and new technologies, and in the development of its human capital.

Its business worldwide depends primarily on the value of its senior executives, the expertise of its personnel, and its international marketing and services network, both global and local.

The Group has consistently set a high priority on preserving its human resources and talent. It has kept a tight grip on its recruitment plan. Emphasis is also placed on monitoring individual performance. On this score, the Group closely reviews under-performing staff, providing suitably tailored support to help them progress and improve their results.

In 2005, the Group made the strategic decision of maintaining its research and manufacturing operations in France, in order to protect its intellectual property while guaranteeing its productivity and competitiveness.

Initiated the same year, the company's radical transformation was overhauled at the end of 2009 in order to prepare for the post-crisis period. Its aim is to adapt the Group to the profound changes taking place in its geographical markets and market sectors; to strengthen its competitiveness and world leadership; to concentrate its resources on the most promising geographical markets and market sectors so as to fulfill its development potential; to reinforce and develop its marketing and sales organization; and, lastly, to bolster the company's innovative capabilities and reinforce its research and development teams.

These actions are undertaken in parallel with a constant search for individual and collective performance. Continuous improvement and optimization of all functions, including administrative and financial information, and processes, remains a permanent objective of the company. In support of this strategy, the Group is pursuing a robust policy of developing its human resources.
The first policy is to recruit and develop the best skills, at headquarters and in international subsidiaries. The Group continues to invest significantly in skills training and in developing the capabilities of managers and teams, nurturing and reinforcing their expertise and performance.
The second policy is to implement the projects necessary to optimize the organizations with the help of new working methods, and high-performance internal information systems.

Economic Headcount

The Group's economic headcount at December 31, 2015 (number of active full-time equivalent persons) was 1,517 worldwide (1,474 at December 31, 2014). The Group's legal headcount is 1,563 (registered workforce). Its customer relations teams (marketing, sales and services activities) account for 51% of the headcount; research and development 18%; production and logistics 10%; and administration and finance, human capital management, and information systems 21%.
42% of the headcount at December 31, 2015 have joined the company in the past five years and 32% in the last three years.
Group policy is designed to advance the careers of its best-performing employees and support all of its employees in enriching their knowledge and know-how. The Group attaches particular importance to internal mobility for its employees. 97% of employees are on open-ended contracts. Fixed-term contracts apply mainly to persons hired to replace staff on maternity or long-term leave.
As a transnational corporation, Lectra operates in a multicultural environment and shares its know-how with its customers in more than 100 countries via its own worldwide sales and services network, supplemented by agents or distributors in certain countries. Its workforce is spread across Lectra SA and its subsidiaries, with more than 50 nationalities represented. This diversity is a major source of wealth and indisputably a key competitive advantage for the Group.
At the end of 2015, men represented 66% of the Group's total headcount (stable since 2012) and formed the majority of sales staff (79%), customer support (86%), manufacturing (79%) and R&D (85%) teams. Conversely, although women represented 34% of the total headcount, they were in the majority in other areas such as marketing (77%). Genders were more evenly split in the professional training and consulting services (61% men, 39% women) and in administration and finance, human resources, and information systems (41% men, 59% women).
Women accounted for 35% of recruitments in 2015 (40% over the past four years), which reflects the percentage of the current headcount of women in the Group.
Finally, by large region, Europe accounts for 70% of employees (including 49% in France and 21% in the rest of Europe), Asia-Pacific 14%, the Americas 11%, and the rest of the world 5%.

Training and Integration

Lectra invests heavily in training for its employees whose expertise is one of the Group's key strengths.
Hiring people with a wide diversity of profiles and skills development has been a priority, the aim being to match the skills and competencies of its teams as closely as possible to the strategy of the Group.
The creation of Lectra Academy, the Group's worldwide in-house training center, in Bordeaux-Cestas, in 2005, was one of a series of major initiatives forming part of a far-reaching plan. The five key challenges of this program are: to adapt and upgrade business-related professional skills and know-how; to bolster the Group's attractiveness to new job applicants around the world; to transmit the strong corporate culture in all its entities; to identify, develop, and retain talent; and to manage careers effectively.
Employees worldwide enjoy access to a broad array of training programs. The Lectra Academy's team is fully dedicated to this task and works directly with the managers of each department and subsidiary, implementing training plans geared to the specific needs of the company's different businesses as well as to local circumstances. Group experts and outside instructors

organize and run seminars in each of the company's areas of competence.

Moreover, Lectra Academy organizes an induction seminar, "Lectra Together", for all new recruits on arrival in the Group. The seminar lasts between one and two weeks, depending on the profiles concerned, and managers provide follow-up coaching on their return from training.

A special effort is made to enrich the capabilities of all Group sales, marketing and consulting teams, as part of the company's accelerated transformation plan and support for the large number of new recruits. The Group also continued to provide technical training for its other teams—R&D especially—in new technologies and methodologies, in Lectra's solutions offer, and in its customers' businesses.

Some subsidiaries follow intensive training, given the evolution of their markets and the weight they carry in the Group's strategy, as for example, China and the United States. Each session is then adapted to local needs and challenges and is led by the Group's best experts.

In 2015, the Group invested €3.7 million in training, representing 3,6% of total staff costs, 78% of the total headcount underwent at least one training course (77% in 2014).

Environmental Disclosures

In view of their specific nature (design, production and distribution of software and CAD/CAM equipment, and related services), the Group's activities have very little impact on the environment.

As a result, the company has no internal environmental management department and does not dedicate specific resources to reducing environmental hazards, nor to the introduction of an organization for dealing with accidental pollution liable to have consequences outside of the company's premises. Many employees have been made aware of environmental issues and incorporate these into their decisions. Environmental issues are, however, taken into account in the design phase of products and services.

More generally, the Group's efforts with regard to the environment focus on three main aspects:

– eco-design of its CAD/CAM equipment, which seeks to reduce raw materials usage in its manufacture, as well as its weight and dimensions. Other goals include limiting the use of polluting or hazardous materials, reducing noise levels in machinery, and raising the share of recyclable products used. This notably entails compliance with a wide range of standards that have yet to become mandatory. This policy also seeks to reduce the equipment's energy consumption;

– products and services enabling the Group and its customers to reduce their CO_2 emissions, and consumption of energy and natural resources. This is notably the case for remote diagnostic systems (part of the Smart Services offer), which serve to maintain the performance and guarantee a very high level of availability in customers' software and CAD/CAM equipment without the need for technicians to visit customers' facilities.

Moreover, thanks to Lectra solutions, customers are able to reduce their consumption of raw materials (e.g. fabrics, leather, technical textiles and composite materials) in manufacturing, through the use of algorithms for optimum nesting, to limit waste. This reduction of raw materials consumption indirectly translates to reduced energy consumption and CO_2 emissions;

– investing in infrastructure designed to preserve the environment and encouraging employees to adopt environmentally friendly practices and behaviors.

At its Bordeaux-Cestas facility, the Group has invested in energy-saving infrastructure to cut down on heating and lighting needs. It has also invested heavily in programs to dematerialize documents and virtualize its data servers, yielding substantial gains in paper and energy consumed.

Finally, the Group has invested in high-performing, sophisticated videoconferencing systems equipping corporate headquarters and almost all subsidiaries worldwide. This allows virtual meetings to be held in excellent conditions offering extremely high picture and sound quality, interactivity and ease of document sharing. Group employees use these facilities abundantly, significantly reducing the need for travel (by plane in the first place, given the worldwide locations of its teams) and resulting greenhouse gas emissions.

Finally, no provision is made nor is any guarantee recognized for environmental risks in its financial statements. It has never paid any compensation in execution of a court decision on environmental grounds, and has no knowledge of any violation by Lectra SA or any of its foreign subsidiaries of local environmental rules.

Subcontractors

The Group subcontracts the production of sub-assemblies of the CAD/CAM equipment it markets to a network of French, regional or national, and foreign companies (most of them located in European Union countries). These sub-assemblies are then assembled and tested at the Bordeaux-Cestas industrial facilities. Other subcontracted activities are mainly confined to cleaning and maintenance of premises and green areas, company cafeterias, and the packaging and transportation of equipment shipped throughout the world and a range of different services.

The Group has a longstanding policy of responsible procurement, notably through the promotion of local subcontracting, reducing the number of outside suppliers, streamlining its logistics so as to minimize its recourse to transportation and packaging, the use of recyclable materials with a lower carbon footprint, promoting recycling, instituting a responsible procurement charter between the company, its suppliers and subcontractors, and implementing contracts recalling its social and environmental requirements.

The Group encourages its subcontractors and suppliers to implement policies contributing to the conservation of natural resources, and to the reduction and elimination of their waste by means of solutions that respect the environment.

Finally, the Group is not aware of any violation by its subcontractors and foreign subsidiaries of the fundamental provisions of the International Labor Organization (ILO).

Relations Between the Group and Educational Institutions

The Group has chosen to focus its commitment on the educational sector, with a special emphasis on training for the professionals of tomorrow.

Through its policy of partnerships, it has forged strong links with educational institutions, providing support for a growing number of students throughout their studies. Lectra takes the view that, as a world leader, it has a responsibility to actively help students in their personal development and preparation for their careers, especially in the fashion and apparel industries. For the past several years the company and its foreign subsidiaries have forged partnerships with more than 850 educational institutions based in 60 countries.

These partners mainly comprise:

– fashion schools and universities;
– schools of engineering, especially those specializing in textiles and computer sciences;
– fashion trade associations.

Three levels of partnership allow the Group to adapt the form and content of its actions to the specific characteristics of each institution (e.g. to the nature of their programs and the students' course requirements). Lectra offers these students access to its latest technologies and to the full extent of its expertise, so that instructors can incorporate these into their programs. All these partnerships are part of a joint and customized approach, forming part of a long-term reciprocal commitment between the institution and Lectra.

"Privilege" partnerships (the highest level) especially offer students opportunities to gain practical experience with technological innovations and with real world business activities through seminars in which they benefit from the experience of the Group's best experts. Lectra also provides them with an exceptional medium and showcase for their final course projects, notably thanks to its international network and Internet website, which includes a special webpage reserved just for them. Lectra is increasingly working to build up this type of program, organizing competitions with schools to enable their students to present their work to the major players in the world of fashion. Group customers are invited to attend these events, giving them an opportunity to discover promising new talent. Finally, Lectra offers internships and actively recruits students graduating from these institutions.

Lectra has developed these partnerships with prestigious schools and universities in Brazil, Canada, China, France, Germany, India, Italy, the Netherlands, Poland, Sweden, Switzerland, the United Kingdom, and the United States. Following Shanghai in 2010, Bordeaux in 2011, London in 2012, and Milan in 2013, Lectra hosted a gathering for its "Privilege" partners in Paris in February 2015 and welcomed more than 60 professors, department heads, and directors from 32 fashion schools and colleges.

These partnerships represent a major investment by the Group, equivalent in value to more than 60,000 active software licenses, made available at no charge to professors and students.
At the same time, the Group works with the world's leading trade associations, such as the *Fédération française de la couture, du prêt-à-porter des couturiers et des créateurs de mode* (French *haute couture*, ready-to-wear and fashion designers' federation). It works closely with all players in the sector in order to anticipate industry developments and help them remain highly competitive in an environment subject to the vagaries of a complex global economy and to the new challenges of the post-crisis economy.
Additionally, Lectra has become involved as a founding partner of the French Institute for Innovation and Competitiveness, created in 2011 and supported by ESCP Europe and the Europe+ Foundation. This veritable think tank aims to promote a broader vision of innovation and serve as a forum for exchanges of views on innovation with public authorities at both the French and European levels.
In 2013, Lectra signed a new three-year partnership with the Institute for Innovation and Competitiveness to establish a Fashion and Technology Chair at ESCP Europe. Inaugurated on February 6, 2014, this chair is intended to develop and transmit knowledge on the themes of innovation and of technologies in the fashion and luxury sectors. This chair has a special focus on new business models emerging notably in Europe and China. It is also rethinking the use of technology in design and supply chain management, and devising responses to the challenges posed by the development of the digital era. The chair sets the standard for research in innovation, technology for the fashion and the luxury industries, as well as serving as a focal point for meetings and discussions between business leaders, academics, policymakers and students at ESCP Europe. It contributes to the dissemination and promotion of its research findings via seminars and training for professionals in these industries.

9. RESEARCH AND DEVELOPMENT

Despite the economic crisis, the Group has continued to invest significantly in research and development.
It bolstered its R&D teams with the addition of 40 software engineers at Bordeaux-Cestas, as part of its €50 million investments for the future program, bringing the R&D headcount to 265 persons at December 31, 2015 (260 at December 31, 2014), including 252 in France and 13 in Spain. Consisting mainly of trained engineers, they span a wide array of specialties across a broad spectrum from software development and Internet services through electronics, mechanical engineering, as well as expert knowledge of the Group's customers' businesses. The Group also has recourse to specialized subcontractors, accounting for a small proportion of its total R&D spending.
In addition, the Group is investing in advanced research and studies, drawing on areas of excellence across an array of laboratories, universities, schools, competitiveness clusters and technology centers. Partnership contracts with various actors are now in progress, accelerating and reinforcing the company's innovative capabilities.
All R&D expenditures are fully expensed in the year and booked in fixed overhead costs. Before deduction of the (French) research tax credit and the portion of the competitiveness and employment tax credit applicable in France, these expenditures totaled €22.4 million in 2015, or 9.4% of revenues (€21.7 million and 10.2% in 2014). Net R&D expense, after deducting the subsidies and tax credits, amounted to €14.3 million (€13.5 million in 2014). These substantial investments (€185 million in the aggregate over the past ten years, reflecting a technology asset valued at zero in the statement of financial position) have enabled the company to maintain and even strengthen its technology lead over its competitors.

10. AUTHORIZATION OF A NEW BUYBACK PROGRAM BY THE COMPANY OF ITS OWN SHARES TO ENSURE A LIQUID MARKET UNDER THE FRAMEWORK OF THE LIQUIDITY AGREEMENT

The Shareholders' Meeting of April 30, 2015 renewed the program in place since the Shareholders' Meeting of April 30, 2014 and granted authority to the company to trade in its own shares for a period of eighteen months from the date of the said Meeting. The sole purpose of this program is to maintain a liquid market in the company's shares by means of a Liquidity Agreement with an investment services provider, in compliance with the code of conduct of the *Association française des entreprises d'investissement* (AFEI, French Association of Investment Companies) or any other code of conduct recognized by the AMF.

Share Cancelations

The company is not authorized to cancel shares.

Transactions by the Company on its Own Account

The company is not authorized to make any transactions to purchase and sell company shares on its own account.

Liquidity Agreement

The Group has contracted with Exane BNP Paribas to act as liquidity provider under a Liquidity Agreement, signed in accordance with the Charter of Ethics of the *Association française des Marchés Financiers* (AMAFI) recognized by the AMF.
Under this Liquidity Agreement, from January 1 to December 31, 2015, the company purchased 224,037 shares and sold 220,629 shares at an average price of €11.74 and €11.80 respectively.
Consequently, at December 31, 2015, the company held 18,340 Lectra shares (or 0.06% of share capital), at a par value of €1.00, with an average purchase price of €11.06, entirely under the Liquidity Agreement, together with €0.3 million in cash and cash equivalents.
Additionally, Lectra may increase the resources allocated, if necessary, by contributing up to €1 million, with a maximum corresponding to the market value of 150,000 Lectra shares.

Renewal of the Share Buyback Program

The Board of Directors has proposed to the Annual Shareholders' Meeting of April 29, 2016, to renew the share buyback program pursuant to article L. 225-209 of the French Commercial Code, for a period of eighteen months from the date of the said Meeting.
As in the case of previous programs, the new program's objective is confined to maintaining a liquid market in Lectra shares. The program will be carried out by an investment services provider acting under a Liquidity Agreement compliant with the Charter of Ethics established by the AFEI or any other code of conduct approved by the AMF.
Although the program is limited to this sole aim and concerns only a small number of shares representing less than 0.5% of the capital stock, the Board has nevertheless acceded to the wishes of shareholders who voted against the corresponding resolution on the grounds that, under this resolution, the program was to remain in force during the period of a possible share buyback tender offer. Accordingly, it has amended the proposed resolution this year, eliminating this clause.
The company will act in conformity with the requirements of French law with regard to the maintenance of sufficient retained earnings and the elimination of voting rights attached to treasury shares.

Maximum Percentage of Capital Stock and Maximum Number of Shares that the Company Proposes to Purchase

As previously, this program will concern a variable number of shares such that the company does not come to hold a number of treasury shares exceeding 0.5% of the capital stock (representing 154,003 shares at the date of this report), adjusted for transactions that may affect it subsequent to the date of the Ordinary Shareholders' Meeting, where appropriate.

Characteristics of Shares Concerned by the Buyback Program

Lectra shares are listed on compartment B on Euronext (ISIN code: FR0000065484).
The Board of Directors will provide shareholders with the information required in articles L. 225-211 of the French Commercial Code, in its reports to the Annual Shareholders' Meeting.

The Board of Directors has proposed the following terms:
– maximum purchase price: €20 per share;
– gross maximum amount to be utilized in the stock buyback program: €1.5 million.
If the shareholders approve this resolution, the new program will replace the one authorized by the General Shareholders' Meeting of April 30, 2015. It will have a duration of eighteen months from the date of the Annual Shareholders' Meeting, i.e. until October 29, 2017.

11. POST-CLOSING EVENTS

No significant event has occurred since December 31, 2015.

12. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 29, 2016.
First, second, and third quarter earnings for 2016 will be published on April 28, July 28, and October 27, 2016, respectively, after the close of trading on Euronext.
Full-year earnings for 2016 will be published on February 9, 2017.

13. REPORT ON AUTHORITY TO INCREASE THE CAPITAL

Article L. 225-100 of the French Commercial Code, as amended by the Executive Order *(ordonnance)* of June 24, 2004, requires that the Management Discussion and Analysis comprises a table summarizing the authorities and powers granted to the Board of Directors by the Shareholders' Meeting, with respect to capital increases in application of articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code, and their utilization by the Board of Directors in the course of the year. The table is attached to this report.
The Extraordinary Shareholders' Meeting of April 30, 2014 authorized the issuance of shares within the framework of a stock option plan for a period of thirty-eight months expiring on June 30, 2017 (see chapter 7).
This authority automatically terminated the authority to issue shares within the framework of a stock option plan, decided by the Extraordinary Shareholders' Meeting of April 27, 2012.

14. BUSINESS TRENDS AND OUTLOOK

2016 Outlook

The company entered 2016 with even more solid operating fundamentals than in 2015 and an even stronger balance sheet. Lectra newly formed sales teams should progressively gain momentum.
However, 2016 looks unpredictable once again. Persistent macroeconomic, geopolitical and monetary uncertainty, together with increased risks, are liable to continue to disrupt the revival of confidence and to weigh heavily on companies' investment decisions.
As in previous years, the main uncertainty concerns the level of orders for new systems sales and corresponding revenues. Visibility remains limited, calling for continued caution.
In this context, the company's objectives are a growth in revenues of 6% to 12% and a growth of income from operations of 8% to 25%.
These variations are like-for-like, on the basis of 2015 financial results restated at 2016 exchange rates. The company has based its 2016 scenarios on exchange rates at December 31, 2015, notably $1.10/€1.
The company has not hedged its currency exposure for 2016.

Company Confident in its Medium-Term Growth Prospects

Given the expected positive effects of Lectra's transformation plan, orders for new systems should begin to accelerate once the macroeconomic context has stabilized and returned to normal.
More than ever, the whole company is focused on stepping up growth in its sales activity.
Bolstered by the strength of its business model, increasingly robust operating fundamentals, a further reinforced balance sheet, and the relevance of its strategy, the company remains confident in its growth prospects for the medium term. It plans to unveil its new 2017-2019 roadmap on February 9, 2017, on the occasion of the publication of the financial statements for the fourth quarter and full year of 2016.

The Board of Directors
February 25, 2016

SCHEDULE OF AUTHORITY TO INCREASE THE CAPITAL AT THE CLOSE OF FISCAL YEAR 2015

Note to chapter 13 of the Management Discussion

Type of issue	Authorization date	Maturity	Term	Maximum amount	Utilization
Stock options[1]	April 30, 2014	June 30, 2017	38 months	Capital: €1,800,000	Amount utilized: €518,857
Total authorized, unexpired and unutilized at December 31, 2015				**€1,281,143**	

(1) The General Shareholders Meeting of April 30, 2014 authorized the creation of a new stock option plan for a maximum of 1,800,000 shares with a par value of €1.00. The maximum amount and amounts utilized at December 31, 2015 are in par value of shares; 518,857 options had been utilized, and 1,281,143 remained at the Board's disposal (see note 15.5 to the consolidated financial statements).

"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 results of the company and of its consolidated companies. We further certify that the Management Discussion and Analysis presents a true and fair view of the operations, results, and financial condition of the parent company and consolidated companies, together with a description of the main risks and uncertainties faced by the company."

Paris, February 25, 2016

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

CHAIRMAN'S REPORT ON INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT, AND ON CORPORATE GOVERNANCE

Dear Shareholders,

The French Financial Security Act of August 1, 2003, French Law n° 2008-649 of July 3, 2008 and Law n° 2011-103 of January 27, 2011 notably amended article L. 225-37 of the French Commercial Code. Consequently the Chairman of the Board of Directors of a *société anonyme* is required:

– to append to the Management Discussion and Analysis of Financial Condition and Results of Operations a report giving details of the manner in which the Board's proceedings are prepared and organized, and on the company's internal control and risk management procedures;

– to describe the principles and rules established by the Board regarding compensation and benefits of all kind of the company's executive and non-executive directors *(mandataires sociaux);*

– when a company voluntarily refers to a code of corporate governance framed by representative organizations of corporations, to specify those provisions it has chosen not to apply and give its reasons for doing so ("comply or explain");

– to report on the application of the principle of balanced representation of men and women on the Board.

The Board of Directors of the company has formally adhered since 2008 to the AFEP-MEDEF Corporate Governance Code of Listed Companies (the consolidated code of December 2008, updated in June 2013, then in November 2015, hereafter referred to as the "AFEP-MEDEF Code"), and has ensured its rigorous application. In particular, the Board of Directors stated on November 28, 2008, that the company had decided to adopt the recommendations issued by the AFEP-MEDEF Code as the code of corporate governance to which the company shall voluntarily refer in matters of compensation of its executive directors, and to comply with its provisions or, should any of these provisions be deemed inappropriate with respect to the specific circumstances of the company, to explain the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code.

The AFEP-MEDEF Code is available for consultation at www.medef.com.

In particular, the Board of Directors has examined the report of the High Committee on Corporate Governance established by the AFEP and the MEDEF published in October 2, 2015, including its annual report on the application by SBF 120 companies of their Code of Corporate Governance, as well as the 2015 report of the (French) Financial Markets Authority (*Autorité des Marchés Financiers*—AMF) on corporate governance and executive directors' compensation published on November 9, 2015.

The Internal Rules and Procedures of the Board of Directors were supplemented and revised in its update of February 11, 2015, in order notably to describe in detail the roles and duties of the Board of Directors, the specific duties entrusted to the Chairman of the Board, arrangements for the provision of training for Directors, prevention and management of conflicts of interest, and for adopting the new recommendations of the AMF. An English-language version was published for the first time. The Internal Rules and Procedures were updated again on February 11, 2016 in order to take account of changes in the rules on corporate governance adopted by the Board of Directors in 2015 and on February 11, 2016, as mentioned in this report.

They can be consulted in full on the company website.

This Chairman's report was submitted to and discussed by the Audit Committee and approved by the Board of Directors at their meetings of February 25, 2016.

Modifications relative to the previous year are indicated as such.

1. CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF BOARD PROCEEDINGS

1.1. Role, Powers and Operation of the Board of Directors

The Board of Directors is responsible under French law and determines the overall strategy and directions of the company's business and oversees their execution.
Subject to powers expressly invested in the Shareholders' Meetings and within the limits of the corporate purpose, the Board may consider all issues pertaining to the proper functioning of the company and decides on all matters concerning it.
The Board scrutinizes and decides on major financial operations, economic matters or questions relating to human capital, and on strategic initiatives.
It appoints the executive directors entrusted with the management of the company and chooses the form of organization (separation of the positions of Chairman and of Chief Executive Officer, or combination of these offices in a single person), and oversees their management.
It decides on the compensation of the Chairman and of the Chief Executive Officer, who are the sole executive directors. This mission cannot be delegated to the Compensation Committee.
It formulates the company's policy on financial disclosure and ensures the quality of the information provided to shareholders and to the financial markets.
The following items require prior approval by the Board of Directors:

- all significant transactions external to the Group's stated strategy or liable to have a significant impact on its financial results, balance sheet structure, or risk profile;
- all borrowings exceeding €5 million;
- all creations of subsidiaries, all acquisitions of companies or activities, together with all disposals of a subsidiary, activity or item of Group intellectual property; and
- all financial or stock market transactions having an immediate or future impact on the share capital.

The Board of Directors performs such controls and verifications as it deems appropriate.
It is kept informed of all important events affecting the life of the company.

Separation of the Offices of Chairman and Chief Executive Officer

In 2002, the Board of Directors separated the functions of Chairman of the Board of Directors from those of Chief Executive Officer.
The Board of Directors considers that this organization of the company's management and administration achieves a better balance and greater operational efficiency in its governing bodies. It is better suited to its worldwide structure and mode of operation, and enables it to place its corporate governance practice on stronger foundations, by clearly distinguishing between the strategic decision-making and oversight functions that fall within the purview of the Board of Directors on the one hand, and the operational and executive functions that are the sole responsibility of the Chief Executive Officer.
In particular, and in the especially difficult macroeconomic conditions prevailing since the global economic and financial crisis of 2008-2009, this organization allows the Chief Executive Officer to focus fully on accelerating the company's transformation in response to the new challenges it faces and demands of its development, and on fulfilling the Group's objectives and short-term action plan while at the same time pursuing its strategic plan.
By working closely together in their respective positions, the Chairman and the Chief Executive Officer are able to maintain a high degree of cohesion and responsiveness in the management and administration of the Group.
They also ensure that Lectra's strategy is formulated and implemented in accordance with its values and long-term interests.
The Chairman of the Board is responsible for organizing and directing the work of the Board of Director, reporting to the General Shareholders' Meeting, and more generally overseeing the proper functioning of the company's management bodies. He ensures that directors are in a position to fulfill their duties. Where appropriate, he attends the meetings of the Committees established by the Board of Directors.
The Chairman represents the Board of Directors and, unless otherwise decided by the latter, has sole authority to speak in its name.

He manages relations between the Board of Directors and the shareholders of the company, in consultation with the Chief Executive Officer.
The Board of Directors has not appointed an Executive Vice President *(Directeur Général Délégué).*

Specific Missions of the Chairman of the Board

In addition to the missions prescribed in the French Commercial Code, the Chairman of the Board of Directors is invested with missions and particular duties that are outlined in chapter 1.5 ("Specific Missions of the Chairman") of the Internal Rules and Procedures of the Board. These notably include:

– the Chairman of the Board of Directors chairs and runs the Strategic Committee;
– working closely with the Chief Executive Officer, he takes part in the definition of the strategic options and development themes deemed essential in order to build the company's future, prepare it for the global economic challenges and risks to which it is exposed, maximize its market potential, and to reinforce its business model and its operating and financial ratios.
This mission comprises, among others, preparation of the following key subjects: the strategic plan, the Group's investments for the future and its transformation plan, the annual action plans, research and development, marketing and human resources plans, together with monitoring their execution; external growth operations; and, finally, financial and stock market transactions having a significant immediate or future impact on the share capital and more generally the assets of the shareholders;
– he reviews and discusses with the Chief Executive Officer major decisions within the competence of the Board of Directors or its Committees, prior to their consideration by the said bodies;
– at the invitation of the Chief Executive Officer, he attends internal meetings with Group managers and teams dealing with these subjects, to give his views;
– he ensures respect for and promotes in all circumstances Lectra's core values and uncompromising ethical standards in the conduct of its business;
– he is the guardian of corporate governance, of respect by the Board of Directors and its members for the rules of conduct, together with the demands of good faith and transparency in the company's financial and corporate publications. He monitors legislative and regulatory developments on these questions and regularly verifies that the Internal Rules and Procedures of the Board of Directors are up to date and fit for purpose; and
– in concert with the Chief Executive Officer, he attends meetings with the shareholders and potential investors, as well as with securities analysts and investors conferences.

The Chairman organizes his time so as to be available and place his experience at the service of the Group. His missions confer no executive authority.

Missions and Powers of the Chief Executive Officer

The Chief Executive Officer is invested with the fullest powers to act on behalf of the company in all circumstances and represents the company in its dealings with third parties. He may be assisted by one or more Executive Vice Presidents.
As required in the company bylaws, the Chief Executive Officer must be a member of the Board of Directors. He exercises his powers within the limits of the corporate purpose and subject to the powers explicitly attributed by law to the Shareholders' Meetings and to the Board of Directors.
He is fully responsible for all operational and executive matters, and all Group teams report to him.
The interactions between the Chief Executive Officer on one hand and the Board of Directors and its Chairman on the other are outlined in Chapter 1.6 ("Missions and powers of the Chief Executive Officer") in the Internal Rules and Procedures of the Board.
He reports to each meeting of the Board of Directors on significant developments relating to the life of the Group.
The Chief Executive Officer chairs the Executive Committee and decides its composition.
The Executive Committee has four members: Daniel Harari, Chairman of the Committee, Jérôme Viala, Chief Financial Officer, Véronique Zoccoletto, Chief Human Capital Officer, Chief Information Officer, and Édouard Macquin, Executive Vice President, Sales. Each member is further invested with specific missions pertaining to execution of the strategic roadmap.

1.2. Membership of the Board of Directors

The Board of Directors has four members: André Harari, Chairman of the Board of Directors, Daniel Harari, CEO, Anne Binder and Bernard Jourdan.

The Board of Directors co-opted Anne Binder and Bernard Jourdan respectively on October 27 and December 21, 2011 as new independent directors. These co-optations were then ratified by the Shareholders' Meeting of April 27, 2012, which also re-elected the four Board members for a period of four years expiring at the end of the Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2015.

Subject to approval by the Ordinary Shareholders' Meeting to be held on April 29, 2016, André Harari, Daniel Harari, Anne Binder and Bernard Jourdan will be re-elected, and a new member, Nathalie Rossiensky, will be elected to the Board. The five directors will be appointed for a four-year period expiring at the end of the Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2019.

All members of the Board are French nationals.

On the occasion of the Extraordinary Shareholders' Meeting of September 26, 2014 called to update and simplify the company bylaws, the Board of Directors again raised the question of the desirable balance in its membership and in that of the Board committees. It concluded that it had taken all necessary steps to guarantee to shareholders and the financial market performs its missions with all due independence, diversity of opinions and objectivity. The appointment of a fifth director will further enhance the diversity of skills.

The Board of Directors will re-elect André Harari to the Chairmanship of the Board and Daniel Harari to the position of Chief Executive Officer.

In its amended version released in June 2013 the AFEP-MEDEF Code refers to the provisions of the French Commercial Code, which stipulates that if the shareholdings held by the employees of the company exceed 3% of the company's capital, or if the company employs at least 5,000 full-time employees in France, or at least 10,000 worldwide, including its direct and indirect subsidiaries, the Board of Directors must include directors representing the employees. These thresholds have been lowered respectively to 1,000 and 5,000 employees under the August 17, 2015 ("Rebsamen") Act. The company is not subject to these requirements inasmuch as it satisfies neither of these conditions.

Directors' Biographies and Other Appointments

Details of directors' biographies and other appointments are provided in the company's annual report.

André Harari holds no outside directorships. Apart from his directorship of the company and certain of its subsidiaries, Daniel Harari holds no directorships outside the company.

Directors' Shareholdings

Article 12 of the company's bylaws stipulates that each director must hold at least one share of the company throughout his or her term as a director.

At February 25, 2016, André Harari held 5,606,851 shares, and Daniel Harari 5,507,560 shares (i.e., 18.2% and 17.9% of the share capital respectively). Also, at that date, Anne Binder held 200 shares, and Bernard Jourdan 78 shares.

The AFEP-MEDEF Code states that each director should be a shareholder in a personal capacity and should own a significant number of shares relative to the director's fees received. If the director does not own these shares when joining the Board, he or she should use the director's fee received in order to purchase shares.

The Board has consistently taken the view that ownership by certain directors of a limited number of shares was not detrimental to the functioning of its governing bodies and did not adversely affect the contributions of these directors. Indeed, the four directors together hold a very large number of shares, and their concern for the interests of the shareholders is self-evident. The assessment of the work of the Board of Directors shows, moreover, that the directors in question are diligent in the performance of their duties. Finally, the two non-executive directors, who individually own the fewest shares, have been selected for their independence and their experience outside the company. The same applies in the case of Nathalie Rossiensky.

At its meeting of February 11, 2016, the Board of Directors nevertheless decided to comply with this recommendation of the AFEP-MEDEF Code. Accordingly, and with effect from 2016, all directors must own at least 3,000 of the company's shares. Directors who do not hold these shares at the time of joining the Board are required to invest the equivalent of 25% of their annual director's fee (i.e. approximately half of the net amount received by them after deduction of social security contributions and personal income tax) until acquiring the requisite number of shares.

Criteria Defining Board Members' Independence

The use of the term independent director is consistent with the terms of the AFEP-MEDEF Code.
This is verified annually by the Board of Directors before publishing its annual report.
André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer, are the two executive directors and as such are not deemed to be independent.
To comply with the rules of corporate governance as set forth in the AFEP-MEDEF Code, half of the members of the Board of Directors must be independent directors in widely-held corporations and without controlling shareholders. In controlled companies, independent directors must represent at least one third of the Board membership.
In general, a director is deemed to be independent when there is no relationship with the Group or its management liable to compromise the said director's freedom of judgment.
Such is the case in respect of Anne Binder and Bernard Jourdan, and will also be the case in respect of Nathalie Rossiensky, all of whom satisfy all the criteria of independence laid down in the AFEP-MEDEF Code, as verified with each independent director by the Board of Directors.
At the end of the Shareholders' Meeting of April 29, 2016, 60% of Board members will be independent, compared with 50% previously.

Duration of Board Appointments

Following the motion by the Board of Directors, the Shareholders' Meeting of April 27, 2012 reduced the terms of office of the directors to four years, to comply with the recommendations of the AFEP-MEDEF Code. For very many years the bylaws had stipulated a duration of six years.
At the end of the Ordinary Shareholders' Meeting of April 29, 2016, the directorships of the five Board members will all have the same four-year duration, expiring on the same date. As a result, the company will remain non-compliant with the recommendation of the AFEP-MEDEF Code regarding the staggering of directors' terms. It considers that, given the small number of directors, maintaining the stability of the Board of Directors with coincident terms of office is an important factor in the proper functioning of the Board and its Committees, guaranteeing a better understanding of the activities, strategy, challenges and issues specific to the company.

Representation of Women on the Board

The January 13, 2011 law laid down new rules on the balance between men and women on Boards of Directors. The law comes into force on January 1, 2017 and sets the minimum proportion of directors of each gender at 40% as of that date, with a proportion of 20% at the close of the first Ordinary Shareholders' Meeting held after January 1, 2014. The AFEP-MEDEF Code requires that the 40% threshold be met at the end of the Ordinary Shareholders' Meeting held in 2016.
The company has respected the figure of 20% referred to above since the end of 2011; the 40% threshold will be respected at the end of the Shareholders' Meeting of April 29, 2016, subject to shareholder approval.

Age Limit for Directors and for the Chairman of the Board of Directors

The proportion of directors aged over 70 is restricted to one-half of the total number of directors in office. The age limit for the position of Chairman of the Board of Directors is 76.
If the threshold of one half of the directors is exceeded, the last director to reach the age of 70 shall automatically be deemed to have resigned, his or her appointment expiring at the end of the next annual Shareholders' Meeting, in order to ensure the continuity of terms of office and of the Board's work in the course of a given fiscal year.

Training of Directors

The non-executive directors receive regular training on the specific characteristics of the company, its businesses and sectors of activity, its product and service offer, its organization and operating mode, notably by means of meetings of the Strategic Committee and the Compensation Committee, and with operational and corporate managers, or through visits to the Group's technology campus, to acquire a thorough understanding of the company.

Following the renewal of the Board of Directors at the end of 2011, numerous meetings have been held with Anne Binder and Bernard Jourdan within this framework. The same will apply with respect to Nathalie Rossiensky.

Outside Directorships Held by Executive Directors

The AFEP-MEDEF Code recommends that an executive director seek the opinion of the Board of Directors before accepting a new directorship in a listed company.

This stipulation did not figure in the Internal Rules and Procedures of the Board insofar as no such directorships existed. A clause inserted in 2015 prohibits executive directors from holding directorships in any French or foreign company, listed or unlisted, outside the Group.

Attendance of Directors at Shareholders' Meetings

As recommended by the AMF, directors, and in particular those holding specific positions such as chairmanship of Board Committees, are required to attend Shareholders' Meetings.

1.3. Committees of the Board of Directors

The Board of Directors has created three specialized Committees: an Audit Committee (2001), a Compensation Committee (2001), and a Strategic Committee (2004). Given the limited number of directors, the functions of the Nominating Committee as laid down in the AFEP-MEDEF Code are performed either by the Compensation Committee or by the Board of Directors in plenary session, depending on the case.

As recommended by the AFEP-MEDEF Code, no executive directors sit on the Audit or Compensation Committees (article L. 823-19 of the French Commercial Code bars directors holding management positions from membership of the Audit Committee with effect from August 31, 2013).

In its amended version of June 2013, the AFEP-MEDEF Code requires each committee to establish rules spelling out its duties and procedures. As permitted under the Code these have been incorporated into the standing Internal Rules and Procedures of the Board of Directors.

André Harari does not hold any operational position. However, he is closely involved in the management of the company, is regularly invited by the Chairs of the Audit and Compensation Committees to take part in their meetings to enable them to benefit from his experience and deep knowledge of the company.

Each Committee may invite all persons of its choosing to attend its meetings, conditional on a pledge of confidentiality and subject to veto by its Chairman. In this event, it must then report on this to the Board of Directors.

Audit Committee

Membership

The Audit Committee consists of two independent Directors, Bernard Jourdan, Chairman of the Committee, and Anne Binder. Henceforward it will consist of three independent directors with the appointment of Nathalie Rossiensky.

The AFEP-MEDEF Code requires the members of the Committee to be competent in financial and accounting matters, and that, upon their appointment, they should be provided with information regarding the specific accounting, financial and operational characteristics of the company. The members of the Committee satisfy this condition, in view of their academic qualifications and professional career, as described in their biographies.

In particular, Bernard Jourdan, the Chairman of the Committee, holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus of *École Centrale de Paris* (Engineering), and obtained an MS (DECS) in accounting from the University of Paris and a BA in economics from the University of Paris Assas.

Anne Binder graduated from the *Institut d'Études Politiques* of Paris. She also has a BA from the Paris faculty of law and a Master in Business Administration

from INSEAD in Fontainebleau, France; she is also Vice Chairman of the French National Chamber of Financial Expert Consultants.
Nathalie Rossiensky graduated from University Paris-IX Dauphine with a Master of Applied Mathematics and a post-graduate degree (DEA) of Financial Economics, and holds a Ph.D. in Finance from London Business School.

Mission

As prescribed in law and as recommended by the AFEP-MEDEF Code, the mission of the Audit Committee is to:
– review the financial statements, and in particular ensure the relevance and continuity of the company's accounting methods used to prepare the consolidated and statutory financial statements; oversee the process for the preparation of financial disclosure and the effectiveness of internal control and risk management procedures; and, prior to meetings of the Board of Directors, to review press releases and quarterly and annual financial announcements. The Audit Committee scrutinizes important transactions liable to give rise to conflicts of interest;
– oversee the rules governing the independence and objectivity of the Statutory Auditors, manage the procedure for the selection of Statutory Auditors when their current appointment expires, and to make its recommendation to the Board of Directors. Each year the Statutory Auditors supply information to the Committee on the services provided directly related to their statutory audit engagement, together with fees paid by Group companies to members of their network in respect of services not directly related to this mission;
– review the information required under the "Grenelle II" Act of July 12, 2010 (French law n° 2010-788); and
– make recommendations and express all opinions to the Board.
More generally, the Audit Committee may consider all questions brought to its attention and pertaining to the aforementioned areas.

Meetings and Activities

The Audit Committee meets at least four times a year, prior to the meetings of the Board of Directors called to review the quarterly and annual financial statements. The Statutory Auditors, the Chief Financial Officer and the Deputy Chief Financial Officer attend all of these meetings.
The Audit Committee held five meetings in 2015, with an effective attendance rate of 100%.
The Audit Committee continuously oversees the preparation of the company accounts, internal audits and financial reporting practices, together with the quality and fairness of the company's financial reporting. The Chief Financial Officer and the Deputy Chief Financial Officer assist the Committee in the performance of its duties, and the Committee periodically reviews with them areas of potential risk to which it needs to be alerted or requiring closer attention. The Committee also works with them in reviewing and approving guidelines for the work program on management control and internal control for the year in progress.
The Committee notably reviews significant off-balance sheet risks and liabilities, assesses the magnitude of malfunctions or weaknesses brought to its attention, and any necessary corrective measures, and it informs the Board of Directors at its discretion. Further, it reviews the assumptions used in closing the consolidated and statutory, quarterly, half-year and annual financial statements, the annual budget prepared by the Executive Committee, and the revenue and financial results scenarios for the fiscal year and their quarterly review before review by the Board of Directors.
The Committee Chairman reports on the Committee's proceedings and recommendations to the Board of Directors at its meetings called to review the quarterly and annual financial statements.
The review of the financial statements, which takes place quarterly, is accompanied by a presentation by the Chief Financial Officer and the Deputy Chief Financial Officer of the company's financial results, accounting methods chosen, exposure to risks and significant off-balance sheet liabilities. It is also accompanied by a presentation by the Statutory Auditors drawing attention to the essential points raised in regard to financial results, together with accounting choices made, together with an account of their auditing work and observations, if any. The Committee Chairman systematically asks the Statutory Auditors if they intend to qualify their reports.
The Committee considered the report of the French Financial Markets Authority (AMF) 2014 on corporate

governance and executive compensation of November 9, 2015 together with the AMF recommendation of October 28, 2015 on the 2015 financial statements.
At the Committee meeting preceding the meeting of the Board of Directors held to consider the preparation of the Annual Shareholders' Meeting, the Committee notably reviews the Board of Directors' Management Discussion and the Chairman's report on internal control procedures and risk management, and on corporate governance, for the past year, and makes recommendations.
In 2015, and again on February 11 and February 25, 2016, at its meetings held to review the financial statements for fiscal 2015, the Committee notably reviewed the goodwill impairment tests and deferred tax assets at December 31, 2015, together with the impacts on the financial statements of the December 29, 2014 Budget Act *(loi de finances)* for 2015, and of the December 29, 2015 Supplementary Budget Act for 2015 *(loi de finances rectificative)*, and the December 29, 2015 Budget Act for 2016.
The Committee also reviewed the mandatory corporate social and environmental disclosures required under the French "Grenelle II" Act (Law n° 2010-788) of July 12, 2010, its enabling decree published on April 24, 2012, to be included in the Grenelle II report appended to the Board of Directors' report submitted to the Annual Shareholders' Meeting on April 29, 2016, together with the procedures and conditions in which the inspecting body performed its audit.
The Committee also reviewed on February 11, 2016 the company's budget as well as the revenue and income scenarios for the fiscal year 2016, together with macroeconomic assumptions, serving as the basis for the information communicated to the market.
The Committee has not identified any operations liable to give rise to a conflict of interest.
Finally, the Committee reviews and discusses with the Statutory Auditors the scope of their engagement and their fees, and ensures that these are sufficient to enable them to exercise a satisfactory level of control: each Group company is subject to an annual verification, usually carried out by a local member of the Statutory Auditors' firms, and a limited review is conducted on the half-year reporting package of the main subsidiaries.
At each meeting, the Committee invites them to report on their control program and on new areas of risk they may have identified in the course of their work, and it discusses the quality of accounting information with them. Once a year, it receives from the Statutory Auditors a report prepared exclusively for its attention on the findings of their audit of the company and consolidated accounts for the year ended, and confirming the independence of their companies in accordance with the French Code of professional conduct and the August 1, 2003 (French) Financial Security Act.
On January 7, 2015, the Committee devoted a working meeting with the Statutory Auditors and the finance team to the presentation of their overall auditory approach, a review of controls of information systems, the risk mapping and recommendations on internal controls, and, finally, the results of audit work on payroll compliance.
The AFEP-MEDEF Code recommends that, when selecting or renewing the Statutory Auditors, the Committee should propose the selection procedure to the Board, and in particular if there are grounds for issuing a call for tenders. The Committee then supervises the call for tenders, approves the list of requirements and the shortlist of audit firms consulted, taking care to select the "best bidder" and not the "lowest bidder". For the sake of continuity, and in light of the expertise gained by the company's Statutory Auditors, the Committee opted not to issue a call for tenders when renewing the appointments of the full and alternate Statutory Auditors with regard to their reappointment for a further period of six years on the occasion of the Shareholders' Meeting on April 30, 2014.
The Committee annually reviews with the Statutory Auditors the risks to the latters' independence. Given the size of the Lectra Group, it is not deemed necessary to envisage precautionary measures in order to attenuate these risks: the amount of the fees paid by the company and its subsidiaries, and their share of total revenues of the audit firms and their networks are immaterial and therefore not such as to impair the independence of the Statutory Auditors.
The Committee assures itself each year that the mission of the Statutory Auditors is exclusive of all other services unrelated to their legally mandated audit, and in particular exclusive of all legal, tax, IT, etc. consulting work performed either directly or indirectly for the

benefit of the company and its subsidiaries. However, additional work or work directly complementing the audit of the financial statements is performed at the Committee's recommendation; the corresponding fees are insignificant.

The Committee has not seen fit to call upon outside experts.

Finally, the AFEP-MEDEF Code recommends a minimum period of two days between the meeting of the Audit Committee and that of the Board of Directors. The company does not follow this recommendation, since the Audit Committee systematically meets in the morning on the day of the Board meeting, prior to the latter, in order to shorten the time between the closing of consolidated and statutory financial statements and market disclosure. However, the members of the Audit Committee and those of the Board of Directors are given sufficient time for consideration, the relevant documents being communicated to them at least three to five days before their meetings.

The Chairman of the Audit Committee systematically communicates the Committee's recommendations to the Board in the course of the latter's meeting.

Compensation Committee

Membership

The Compensation Committee consists of two independent directors, Bernard Jourdan, Chairman of the Committee, and Anne Binder. Its membership will increase to three with the appointment of Nathalie Rossiensky.

The June 2013 amended version of the AFEP-MEDEF Code states that "it is advised that an employee Director be a member of this Committee". However, inasmuch as the company is not covered by the obligation to appoint employee directors, for the reasons stated above, this recommendation does not apply to the company.

Mission

The mission of the Compensation Committee is broader than that laid down in the recommendations of the AFEP-MEDEF Code and is to:

– review, prior to meetings of the Board of Directors called to vote on these questions, the principles and amount of fixed and variable compensation, together with the corresponding annual targets serving to determine the variable portion thereof, and the additional benefits paid to executive directors, and make recommendations. At year-end closing, the Committee validates the actual amount corresponding to variable compensation earned during the fiscal year elapsed;

– review the principles and amount of fixed and variable compensation, together with annual targets governing calculation of the variable portion, together with additional benefits paid to other members of the Executive Committee;

– review the fixed and variable compensation of all Group managers whose total annual compensation exceeds €150,000 or its equivalent in foreign currencies;

– review, prior to the meeting of the Board of Directors to vote on these questions, the details, rules and granting of the annual stock options plan, and make its recommendations;

– review company policy on equal opportunities and equal pay, and to make recommendations to the Board prior to annual discussion by the latter, as prescribed in the (French) January 13, 2011 Act and that of August 6, 2014;

– take cognizance annually of the Group's human resources performance report, of its policies and of the corresponding plan for the current fiscal year.

In that capacity, the Compensation Committee makes recommendations and expresses all opinions to the Board. More generally, the Compensation Committee may consider all questions brought to its attention and pertaining to the aforementioned areas.

Meetings and Activities

The Compensation Committee organizes its work as it sees fit. It meets as often as the interests of the company demand and at least before each meeting of the Board whenever the agenda provides for the setting of compensation and additional benefits for the executive directors, or for the granting of stock options, and reports on its recommendations to the said meeting.

The Committee met three times in 2015 with an effective attendance rate of 100%.

The Compensation Committee reviews the compensation and additional benefits of the other members of the Executive Committee, as well as the compensation of the senior Group managers. In addition, it annually reviews

the company's policy on equal opportunities and equal pay, prior to the meeting of the Board of Directors, and makes its recommendations. The Committee reviews in detail all corresponding documents prepared by the Chief Executive Officer and the Chief Human Capital Officer, and communicates its recommendations to the Board.
The Compensation Committee regularly discussed progress of the Group's recruitment plan for 2012-2015, in view of the importance of this issue. The potential consequences of changes in French tax and social legislation are also reviewed regularly.
In particular, the Committee has examined the second activity report by the High Committee for Corporate Governance created by AFEP and MEDEF and published in October 2, 2015, as well as the AMF report on corporate governance and executive compensation of November 9, 2015.
The Committee met on February 11 and February 25, 2016, prior to the Board of Directors, to assess the definitive amounts of the variable compensation of the executive directors, and to review the principles and amounts of their fixed and variable compensation for the new three-year period from 2016 through 2018, together with the rules governing their variable compensation based on the targets for 2016.
For the reasons given above, the Board of Directors has not seen fit to appoint a Selection or Nominating Committee. The Chairman of the Compensation Committee and the Chairman of the Board of Directors were entrusted with the task of seeking out and selecting the fifth director, whose appointment is proposed to the Shareholders' Meeting of April 29, 2016, and have performed this task with the requisite diligence. The final choice was unanimously approved by the Board.
Moreover, the AFEP-MEDEF Code recommends that, when reporting on the proceedings of the Compensation Committee to the Board of Directors, the executive directors absent themselves when the Board discusses and votes on their compensation. In view of the way in which the Board of Directors functions, the independent directors of the company, who are both members of the Compensation Committee, have not hitherto seen fit to discuss the matter in the absence of the executive directors.

However, the Board has seen fit to comply with this recommendation and has decided, with effect from fiscal 2016, the Compensation Committee, which comprises, and will continue to comprise, all of the independent directors to the exclusion of the executive directors, will henceforward meet annually in the absence on the latter for the purpose of discussing their compensation. The Chairman of the Compensation Committee will submit the Committee's recommendation to the Board in full session. André Harari and Daniel Harari will continue to abstain from participating in the vote concerning their respective compensation. This procedure was applied for the first time on the occasion of the meetings of the Compensation Committee and the Board of Directors of February 11, 2016.

Strategic Committee

Membership

The members of the Strategic Committee are André Harari, Committee Chairman, Anne Binder, and Bernard Jourdan. The membership of this Committee will be increased to four, three of them independent, with the appointment of Nathalie Rossiensky.

Mission

The prime mission of the Strategic Committee is to review the consistency of the company's strategic plan, its key challenges and risks to which it is exposed, its internal and external growth drivers, and the optimization of its development in the medium term.
It formulates all recommendations and delivers all opinions to the Board.
The Strategic Committee organizes its work as it sees fit. It meets as often as the interests of the company demand and at least once a year.
The Strategic Committee reports on its proceedings to the Board of Directors at least once a year and whenever it wishes to make recommendations to the Board.
It notably reviews and discusses the major strategic directions and development themes proposed by the Chairman of the Board of Directors and the Chief Executive Officer in order to prepare the Group for the global economic challenges and key risks to which it is exposed, and to reinforce its business model and its operating and financial ratios.

Within this framework, it also studies and formulates recommendations on the strategic plan, on the investments for the future and Group transformation plan; on the broad aims of annual action plans; on external growth operations; and, finally, on financial or stock market transactions having a significant immediate or future impact on the share capital and more generally on assets of the shareholders. It is kept informed of their execution.

Meetings and Activities

The Committee met five times in 2015, with an effective attendance rate of 100%.

In view of the importance of the subjects covered, the Chief Executive Officer was invited to attend all these Committee's meetings.

The Committee in particular reviewed and discussed progress in the execution of the 2013-2016 strategic roadmap, and the 2012-2015 transformation plan, and formulated recommendations. The Committee has been regularly informed of the impact of developments in the macroeconomic environment on the activities of the Group.

The Committee also reviewed and discussed the main priorities and the different scenarios for 2016, together with the broad outlines of the 2016 action plan, and the research and development, marketing and human resources plans.

Limits to the Decision-Making Powers of the Committees

Subjects that the Chairman of the Board of Directors, the Chief Executive Officer or the Chairman of either of these Committees wishes to discuss are placed on the agenda of the Committee concerned. When an item on the agenda of the Board of Directors requires prior discussion by the Audit Committee, the Compensation Committee, or the Strategic Committee, the Chairman of the Committee concerned communicates his Committee's observations, if any, and recommendations to the full session of the Board. The Board is thus kept fully informed, facilitating its decisions.

No decision within the competence of the Board of Directors is made by the Audit Committee, the Compensation Committee, or the Strategic Committee. All decisions required to be made by the Board of Directors, and in particular those concerning the compensation of executive directors and the granting of stock options programs to Group managers and employees, together with all external growth operations, are considered and approved in full sessions of the Board of Directors.

Moreover, all financial press releases and notices published by the company are submitted to prior review by the Board and the Statutory Auditors, and are published on the same evening after the close of Euronext.

1.4. Board of Directors and Board Committees Overview

Subject to approval by the Shareholders' Meeting of April 29, 2016:

	André Harari	Daniel Harari	Anne Binder	Bernard Jourdan	Nathalie Rossiensky
Executive Directors	Chairman of the Board of Directors	Chief Executive Officer			
First appointed	1977[1]	1991	October 27, 2011	December 21, 2011	April 29, 2016
Re-elected	April 29, 2016	April 29, 2016	April 29, 2016	April 29, 2016	
Term expires	Shareholders' Meeting called to approve fiscal 2019 financial statements	Shareholders' Meeting called to approve fiscal 2019 financial statements	Shareholders' Meeting called to approve fiscal 2019 financial statements	Shareholders' Meeting called to approve fiscal 2019 financial statements	Shareholders' Meeting called to approve fiscal 2019 financial statements
Number of years on Board	39[1]	25	4	4	0
Nationality	French	French	French	French	French
Age	72	61	65	71	46
Gender	Male	Male	Female	Male	Female
Status	Non-independent	Non-independent	Independent Director	Independent Director	Independent Director
Experience and expertise provided to the company			Strategy, financial, international	Strategy, industrial, financial, international	Strategy, financial, international
Number of outside directorships in listed companies	0	0	1	0	0
2015 effective attendance	100%	100%	100%	100%	
Audit Committee			Member	Chairman	Member
2015 effective attendance			100%	100%	
Compensation Committee			Member	Chairman	Member
2015 effective attendance			100%	100%	
Strategic Committee	Chairman		Member	Member	Member
2015 effective attendance	100%		100%	100%	

(1) Member of the Supervisory Board until 1991.

1.5. Internal Rules and Procedures of the Board of Directors and Board Committees

The AFEP-MEDEF Code recommends the establishment of internal rules to govern the procedures of the Board of Directors and the Board Committees.

The Board of Directors laid down principles several years ago governing all cases requiring prior approval, notably as regards commitments and guarantees given by the company, significant transactions outside the stated strategy of the company (the case has never arisen), and all external growth operations, and has laid down the rules whereby it is informed of the company's financial situation and cash position.

In view of the changes that have occurred in its membership, in 2012 the Board of Directors adopted a set of Internal Rules and Procedures, updated on February 11, 2016, which can be consulted on the company's website, in French and in English. The changes mentioned in this report have been incorporated into this updated version where appropriate.
The company bylaws are regularly updated in response to legal and regulatory developments, in order to present the company's organizational and operational rules in a detailed manner. At the motion of the Board of Directors, the Extraordinary Shareholders' Meeting of September 26, 2014 simplified certain provisions, details of which were henceforth deemed inappropriate in light of new rules of governance promoted by the AFEP-MEDEF Code and the practice of the Board of Directors.

Prevention of Conflicts of Interest

The Board of Directors has also, historically, put in place a procedure for managing conflicts of interest, if any. This procedure is formalized in the Board's Internal Rules and Procedures.
Each director must ensure at all times that their personal situation avoids all conflicts of interest with the company or Group companies, has a duty spontaneously to inform the Board of any situation or risk of conflict of interest, real or potential, and must abstain from taking part in corresponding discussions, votes or deliberations.
Further, and without prejudice to the formalities pertaining to authorizations and control prescribed by law and the company bylaws, directors are required to notify the Chairman of the Board without delay of any related-party transaction into which the Group may enter and in which they have a direct or indirect interest, regardless of its nature.
The Chairman of the Board notifies the Board of any conflicts of interest or potential conflicts he may have identified concerning the executive directors and the other directors.
In the event of a conflict of interest, including a potential conflict of interest, the Board of Directors must decide on this question and, if necessary, call upon the director concerned to rectify their position.
No such situation arose in the year under review, nor has one arisen in earlier years. The Chairman of the Board of Directors and the Chief Executive Officer abstain from participating in the votes on motions regarding their respective compensation. There were no related party transactions in either 2015 or 2014.

1.6. Timetable, Meetings and Activity of the Board of Directors

The company's financial calendar setting out the dates for the publication of quarterly and annual financial results, those of the Annual General Shareholders' Meeting and the two annual analysts' meetings is drawn up prior to the close of the current year for the following year. The calendar is published on the company's website and communicated to Euronext. The dates of six meetings of the Board of Directors are decided on the basis of this calendar. These comprise the quarterly and annual financial results publication dates, approximately forty-five to sixty days prior to the Annual General Shareholders' Meeting in order to review the documents and decisions to be presented, and approximately twenty trading days after the dividend approved by the Annual Shareholders' Meeting is made payable, or thirty to forty-five calendar days after the Annual Shareholders' Meeting if there is no dividend, i.e. around June 10, for the granting of the annual stock option plan.
The Statutory Auditors are invited to, and systematically attend, these meetings (with the exception of the meeting to decide on the annual stock options plan).
In addition, the Board also meets outside of these dates to discuss other subjects falling within its responsibilities (including all planned acquisitions or the review of the company's strategic plan) or those that the Chairman wishes to submit to the directors. The Chief Financial Officer, appointed Board Secretary, is systematically invited to attend and takes part in all Board meetings, except when prevented from doing so.
The Board of Directors met six times in 2015, with an effective attendance rate of 100%.

Voting Rights: Maintaining the Principle of One Share, One Vote

The Board of Directors called an Extraordinary Shareholders' Meeting on September 26, 2014 to approve the amendments and simplifications to the company bylaws, regarding in particular maintenance of the principle of one share, one vote following the entry into force of the French March 29, 2014 Act (Law

n° 2014-384, the "Florange Act"). This act reversed the previously existing principle, providing that shares of listed companies registered for at least two years in the name of the same shareholder will henceforward enjoy double voting rights, except where otherwise stipulated in company bylaws adopted after the promulgation of the law.
As recommended by the Board of Directors, the Extraordinary Shareholders' Meeting of September 26, 2014 approved almost unanimously (99%) the principle of one share, one vote, departing from the new law and amending the company bylaws in consequence.
As a result, only 334,404 shares held in registered form before May 15, 2001 (representing 1.1% of the capital stock) carried double voting rights at December 31, 2015.

1.7. Investor Information on the Company's Long-Term Outlook

In its amended version released in June 2013 the AFEP-MEDEF Code stipulates that, in communicating to the market, corporations must spell out their long-term outlook in their disclosures to investors. The company has complied with this requirement, presenting its February 11, 2015 Management Discussion and the Report of the Board of Directors to the Ordinary Shareholders' Meeting of April 30, 2015, its strategic roadmap for 2013-2016 introduced in its February 12, 2013 Management Discussion and its financial objectives set for 2016.
The company has again spelled out its long-term outlook in its February 11, 2016 Management Discussion and the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 29, 2016. It will present its new roadmap for 2017-2019 on the occasion of the publication of the fourth quarter and full-year financial results for 2016, on February 9, 2017.

1.8. Organization of Board Proceedings—Communication of Information to Directors

The agenda is set by the Chairman of the Board of Directors after consulting with the Chief Executive Officer, the Chief Financial Officer and, where appropriate, the Chairmen of the Audit Committee and the Compensation Committee in order to place on the agenda all subjects they wish to be discussed at the forthcoming Board meeting.
In advance of each Board meeting, a set of documents is systematically addressed to each director, to the employees' Works Council representatives and to the Chief Financial Officer, as well as to the Statutory Auditors for the four meetings called to review the financial statements and for the meeting to prepare for the Annual General Meeting of Shareholders.
Details of each item on the agenda are provided in a written document prepared by either the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, or the Chief Human Capital and Information Officer, as required, or are presented during the meeting itself.
As in previous years, in 2015 all documents to be communicated to the directors were made available to them in compliance with regulations. Further, the Chairman regularly asks directors if they require additional documents or reports in order to complete their information.
Detailed minutes are produced for each meeting and submitted to the Board of Directors for approval at a subsequent meeting.
Furthermore, to complete their understanding of the Group, the independent Directors attended a meeting with the Director of Italy and his management team on the Group's strategy in Italy, and visited the Bordeaux-Cestas technology campus to review the company's technology offering and R&D projects. In 2014, they attended meetings with the Directors of Marketing devoted to the Group's marketing organization and plans, two meetings with the Director of Marketing Software on developments relating to the software offering, and finally a meeting with the Director of China and his management team on the Group's strategy in China.

1.9. Evaluation of the Board of Directors

The AFEP-MEDEF Code recommends that once a year the Board should devote an item on its agenda to a discussion of its membership, organization and functioning. The Board is also required to verify that important questions are thoroughly prepared and discussed, and to assess the effective contribution of each director to its works in light of their expertise and involvement in the discussions.
This point is discussed at the February Board meeting which reviews the financial statements for the year elapsed.

The AFEP-MEDEF Code also recommends a formal evaluation exercise every three years at least, assisted by an outside consultant should the need arise, and that the shareholders be informed annually of the performance of these evaluations. No such evaluation has been performed by the company. The Board considered that this recommendation was satisfied informally, because of its small size, the comprehensive nature of the subjects discussed, the extent of its disclosure, and the fact that the directors were accustomed to working together and regularly discussing its functioning, and that there was no need for a formal evaluation or to measure the individual contribution of directors to the work of the Board.

In light of the renewal of the Board of Directors and the appointment of a fifth director by the Shareholders' Meeting of April 29, 2016, the Board has nevertheless decided to comply with these recommendations with effect from fiscal 2015, and has conducted a formal evaluation for the first time.

A complete list of criteria was submitted to each director to allow him or her to rate and comment on each criterion, and to propose changes or improvements, if any, and to measure the contribution of each individual director to the work of the Board. The two independent directors met on December 9, 2015, in the absence of the two executive directors, to review and summarize the directors' replies, presenting them to the full meeting of the Board on February 11, 2016.

In this meeting, Anne Binder and Bernard Jourdan reiterated and enriched their opinions of earlier years, regarding the highly satisfactory functioning of the Board, the particularly high standard of governance within the company, and the transparent relations with the two executive directors founded on complete trust. They again emphasized the high level of demands that the Chairman and the directors put upon themselves, notably with regard to the preparation and proceedings of Board and Committee meetings, the quality, relevance and comprehensive nature of the information communicated to them. The time frame in which it is communicated allows them sufficient time to consider it.

They appreciated the program drawn up with the Chairman to complete their familiarization with the businesses and specific characteristics of Lectra. Access to key managers is facilitated in particular on the occasion of comprehensive presentations arranged on the Bordeaux-Cestas technology campus. Finally, they emphasized the readiness of the Chairman of the Board to answer their requests regarding specific subjects. The directors further stressed the frequency of the meetings of the Board, and of the Strategic, Compensation and Audit Committees, together with duration and productivity of the Committee meetings and the good division of labor between them, allowing key issues to be discussed in greater depth, devoting the necessary time to them. The involvement, the regular attendance and the effective contribution of each of their members are a major asset.

They also found that, provided the Shareholders' Meeting of April 29, 2016 approves the resolutions regarding the re-election of directors and the appointment of a new female director, the newly-constituted Board will have achieved its diversity goals in terms of gender balance and international experience. It has not been considered necessary to appoint a non-French national to the Board, in light of its size, operational constraints and the particularly rich international experience of its members.

The formal evaluation also assessed the individual contribution of each director to the work of the Board, which was unanimously deemed to be excellent.

The directors reiterated their wish that the Chairman be invited to attend the meetings of the Audit and Compensation Committees, and that the Chief Executive Officer be invited to the Strategic Committee.

Finally, they stated that they saw no area in need of improvement at present.

The independent directors will meet annually, in the absence of the two executive directors, to take note of changes relative to the previous evaluation. The Board will henceforward conduct a formal evaluation every three years.

1.10. Periodic Meetings of the Independent Directors in the Absence of the Executive Directors

The AFEP-MEDEF Code further recommends that the independent directors meet periodically in the absence of the executive or internal directors. Given the way the Board of Directors works, the independent directors have not previously seen fit to follow this recommendation, bearing in mind that they are free, if they wish, to meet

and discuss matters without the executive directors being present, in the course of meetings of the Board Committees.
The independent directors have nevertheless decided to adopt this recommendation starting in 2015, expanding the range of subjects they wish to discuss in the absence of the two executive directors on the occasion of their annual evaluation of the Board. They did so on the occasion of their meeting on December 9, 2015, reporting orally to the Chairman of the Board of Directors.

1.11. AFEP-MEDEF Code Recommendations not Implemented: Application of the "Comply or Explain" Rule

As recommended by the AMF, the table below summarizes those provisions of the AFEP-MEDEF Code with which the company is non-compliant and explains the reasons why, applying the "comply or explain" rule provided for in article L. 225-37 of the French Commercial Code and referred to in article 25.1 of the AFEP-MEDEF Code.
As explained in the relevant sections above, the Board of Directors has decided to comply with certain recommendations previously not implemented, starting in 2016, which are highlighted in the table.

AFEP-MEDEF Code recommendations not implemented[1]	Explanation
1. Obligation for each director to own personally a significant number of shares relative to the director's fees received: if the director does not own these shares when joining the Board, he or she should use the director's fee received in order to purchase shares	The Board considers that the four directors collectively hold a very large number of shares, and that their concern for the interests of the shareholders is self-evident. It further considers that it is neither necessary nor sufficient to be a large shareholder, individually, to fulfill the duties of a director diligently. The two non-executive directors, who individually own the fewest shares, have been selected for their independence and their experience outside the company. The same will apply in the case of the third independent director. The Board has nevertheless decided to apply this recommendation starting in fiscal 2016, and that each director should own at least 3,000 of the company's shares. Any director who does not own this number of shares upon taking office is henceforward required to invest the equivalent of 25% of his or her director's fee (i.e. approximately one half of the net amount after social security contributions and personal income tax) until reaching the requisite number. This exception will therefore cease to be mentioned in the Chairman's report for 2016.
2. A variable portion dependent on attendance in calculating the payment of directors' fees	In view of the strong commitment displayed by the members of the Board of Directors, in particular the historically high rate of attendance at meetings of the Board of Directors and its Committees, and the number of meetings, the Board has not considered it necessary to establish a variable portion dependent on attendance in calculating the payment of directors' fees or a supplementary fee to encourage directors' participation in specialized committees. The Board has nevertheless decided to apply this recommendation starting in fiscal 2016, adopting a procedure for apportioning directors' fees decided by the Shareholders' Meeting, having due regard to directors' effective attendance at the meetings of the Board and its Committees, with a predominantly variable share. This exception will therefore cease to be mentioned in the Chairman's report for 2016.

AFEP-MEDEF Code recommendations not implemented(1)	Explanation
3. Staggering of directors' terms of office	The company considers that, given the small number of directors, maintaining the stability of the Board of Directors, with coincident terms of office, is an important factor in the proper functioning of the Board and its Committees and guarantees a better understanding of the activities, strategy, challenges and issues specific to the company.
4. Minimum period of two days between the meeting of the Audit Committee and that of the Board of Directors	The Audit Committee meets on the morning of the same day on which the Board of Directors meets, prior to the latter's meeting, in order to shorten the time between the closing of consolidated and statutory financial statements and market disclosure. However, the members of the Audit Committee, like those of the Board of Directors, are given sufficient time for consideration insofar as the relevant documents are communicated to them at least three to five days before their meetings. The Chairman of the Audit Committee systematically communicates the Committee's recommendations to the Board in the course of the latter's meeting.
5. The Board of Directors to discuss the compensation of executive directors in the absence of the latter	In view of the highly transparent nature of the Board's discussions on all subjects in full session, the Board has never deemed it necessary to follow this recommendation. André Harari and Daniel Harari abstain from voting on matters concerning them. The Board has nevertheless decided to apply this recommendation starting in fiscal 2016, and that the Compensation Committee, which comprises the independent directors but not the executive directors, will meet in the absence of the latter in order to discuss their compensation. The Chairman of the Compensation Committee will present the Committee's recommendations to the full meeting of the Board. André Harari and Daniel Harari will continue to abstain from participating in the vote on the decision concerning their respective compensation. This exception will therefore cease to be mentioned in the Chairman's report for 2016.

(1) The foregoing table presents only those exceptions to, or recommendations of, the AFEP-MEDEF Code that apply to the company when it falls within the scope of the relevant legislation, as specified in the appropriate sections of this report.

2. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES ESTABLISHED BY THE COMPANY

In its work, and in preparing this report, the company referred to the principles set forth in the reference framework published by the AMF in January 2007, and to its guide to implementing this recommendation for small and mid-sized companies updated in July 2010.
The general approach adopted for this purpose makes due allowance for issues specifically applicable to the company and its subsidiaries having regard to their size and respective activities.
This chapter refers to the parent company Lectra SA and to its consolidated subsidiaries. The risk management and internal control procedures are intimately bound up with the strategy of the Group and its business model, with which they evolve. They must enable the control and management of risks within the Group while optimizing its operating performance, respecting its culture, values and ethical standards.
The Group regularly reviews its internal control and risks management procedures in order to identify areas for progress within the framework of its continuous improvement program. The overhaul and updating of certain procedures, the establishment of a self-assessment procedure for internal control processes, and harmonization of the financial reporting information system are all part of this program.
The main risks to which the company is exposed, given the specific nature of its activities, structure and organization, and that of its strategy and business model, are discussed in chapter 4 of the Management

Discussion, to which the reader is referred. This chapter also covers the management of these risks: their identification, their analysis and how they are addressed. The internal audit approach implemented by the Group is a key component of risk management.

2.1. Group Internal Control and Risk Management System

The internal control system designed and implemented by the Group comprises a body of rules, procedures and charters. It also encompasses reporting obligations and the individual conduct of all of the players involved in the internal control system by virtue of their knowledge and understanding of its aims and rules.
This system aims at providing reasonable assurance of achieving the following objectives.

2.1.1. Legal and Regulatory Compliance

The company's internal control procedures are designed to provide assurance that the operations carried out in all Group companies comply with the laws and regulations in force in each of the countries concerned for the different areas in question (e.g. corporate, customs, labor and tax laws, etc.).

2.1.2. Oversight of Proper Application of General Management Instructions

A series of procedures has been put in place to define the scope and the limits to the powers of action and decision of Group employees at all levels of responsibility. In particular these serve to ensure that the business of the Group is conducted in accordance with the policies and ethical rules laid down by General Management.

2.1.3. Protection of Assets and Optimizing Financial Performance

The purpose of the processes in place and procedures to control their application is to optimize the financial performance consistently with the company's short and medium-term financial goals. Internal control procedures contribute to the safeguarding of Group fixed and intangible assets (such as intellectual property, company brands, customer relationships and corporate image, computer data), as well as the Group human capital, all of which play a key role in its property, business activity and growth dynamism.

2.1.4. Reliable Financial Information

Among the control mechanisms in place, special emphasis is placed on procedures for preparing and processing accounting and financial information. Their aim is to generate reliable, high-quality information that presents a fair view of the company's operations and financial condition. In addition, these procedures are designed to produce timely quarterly and annual financial statements, ready for publication thirty days after the close of each quarter at the latest, and a maximum of forty-five days after fiscal year end.

2.1.5. Risk Management

The risk management procedures, to which the internal control system contributes, follow objectives that are common or specific to internal control procedures. It aims in particular at:
– creating and preserving values, assets and the company's reputation;
– securing the decision-making processes and reaching goals;
– ensuring coherence between the company's core values and its actions;
– mobilizing employees involved in the management of risks linked to their activity and responsibilities, by sharing the appraisal of the main risk factors.
Lectra's internal control system is designed to reach the specific risk management objectives. It covers all Group companies, taking into account their diversity in terms of size and the challenges of the different subsidiaries and the parent company. Similarly, the cost of implementing the system's performance target for covered risks versus residual risks is compatible with the Group's resources, its size and the complexity of its organization.
While this system provides reasonable assurance of fulfilment of the aforesaid objectives, it can provide no absolute guarantee of doing so. Many factors independent of the system's quality, in particular human factors or those attributable to the outside environment in which the Group companies operate, could impair its effectiveness.

2.2. Components of Internal Control

2.2.1. Organization, Decision-Making Process, Information Systems and Procedures

(a) Organization and Decision-Making Process

As indicated in chapter 1, the Board of Directors is responsible for setting the company's strategy and direction for the company's operations, and for overseeing their implementation. The Chairman of the Board is responsible for overseeing the proper functioning of the company's managing bodies.

The Audit Committee discusses the internal control system at least once a year with the Group Statutory Auditors. It gathers their recommendations and, notably, ensures that their level and quality of coverage are adequate. It reports on its proceedings and opinions to the Board of Directors.

The Executive Committee implements the strategy and policies defined by the Board of Directors. Its members have each been delegated broad powers and are critical to the effectiveness of the internal control system.

The Chief Executive Officer is invested with the fullest powers to act on behalf of the company in all circumstances and represents the company in its dealings with third parties. He is fully responsible for all operational and executive matters and, together with the other members of the Executive Committee, for worldwide sales and service operations, of which the regional managers and subsidiaries form part.

The heads of the Lectra Group's various corporate divisions also report directly to the Chief Executive Officer or to another member of the Executive Committee, their organization and missions being adapted to the changing external and internal context of the company, i.e.:

– the Finance division (treasury, accounting and consolidation, management control and audit, sales administration, and legal affairs);
– the Manufacturing division (purchasing, manufacturing, logistics, quality control);
– the Human Resources and Information Systems division;
– the Sales division;
– the Marketing and Communication divisions;
– the Customer Support Services division;
– the Professional Services division (training, consulting);
– the Software and Hardware Research and Development divisions.

All important decisions (sales strategy, organization, investments and recruitment) relating to the operations of a region or Group subsidiary are made by a specific committee responsible for the region or subsidiary concerned. These committees, chaired by the Chief Executive Officer or by one of the Executive Committee members, meet regularly (usually quarterly for the regions and/or main countries), with the regional managers and heads of the subsidiaries concerned as well as their management teams attending. The latter submit to the committees their detailed action plans drawn up on the basis of Group strategic and budget directives, and they report on the implementation of decisions as well as on their operations and performance.

The powers and limits to the powers of directors of subsidiaries and regions and of the directors of the various corporate divisions are laid down by the Chief Executive Officer or by a member of the Executive Committee, depending on the area concerned. These powers and their limits are communicated in writing to the directors concerned. The directors are then required to account for their utilization of the powers thus conferred on them in the pursuit of their objectives, in monthly or quarterly reports on their activities to the members of the Executive Committee and to the Chairman of the Board of Directors.

The internal control process involves a large number of other players. The corporate divisions are at the center of this organization. They are responsible for formulating rules and procedures, for monitoring their application and, more generally, for approving and authorizing a large number of decisions connected with the operations of each Group entity.

Clear and precise delineation of organizations, responsibilities and decision-making processes, together with regular written and verbal exchanges, allow all players to understand their role, discharge their duties and form a precise assessment of their performance *vis-à-vis* the objectives assigned to them and also *vis-à-vis* those of the Group as a whole.

The Chief Executive Officer draws up a detailed annual action plan to ensure the proper execution of the strategic roadmap. This is very closely monitored by the Executive Committee, the Chairman of the Board of Directors, and the Strategic Committee.

(b) Information Systems

Thanks to integrated inter-company financial information, assured homogeneity and communicability between the Group's different IT systems, and their continuous adaptation to developments in business processes and modes of operation, together with tighter controls, the information systems play a structurally critical role in the Group's system of internal control, and act as a key performance-tracking instrument.

The information systems are regularly adapted to the expanded requirements of General Management in terms of the quality, relevance, timeliness and comprehensiveness of information, while at the same time providing stronger controls.

An ERP software application covers all of the functions pertaining to the parent company's activities (purchasing, supply chain and accounting functions) and those of all Group subsidiaries (order and billing processing, and after-sales services). This system has enabled the deployment of strengthened management procedures and rules, and a better integration of business processes.

The Group utilizes software application encompassing statutory consolidation of the accounts and management reporting, enabling stricter controls, ensuring the quality of financial disclosure, and guaranteeing the consistency of internal information and the Group's external financial communication.

A human resources administration information system serves to track personnel (recruitments, promotions, departures, etc.), compensations and changes in compensation, and employee attendance in training programs. In addition to automated reporting, the system harmonizes procedures with strengthened controls across the entire Group.

A customer relations management (CRM) system improves the Group's sales and marketing efficiency and supports its transformation plan. A new marketing automation software was introduced in 2015 and will be deployed to all subsidiaries in 2016.

Finally, specific procedures are in place to ensure the physical security and preservation of data, these procedures being periodically upgraded in response to the changing nature of risks.

(c) Procedures

A large number of procedures specify the manner in which the different processes are to be performed, together with the roles of the different persons concerned, and the powers delegated to them within the framework of these processes. They further prescribe the method of controlling compliance with rules for the performance of processes. The main cycles or subjects entailing issues critical to Group objectives are:

- Sales

A series of procedures exists to cover the sales cycle and more generally the entire marketing and sales process. In particular, the "Sales rules and guidelines" clearly set out rules, delegations of powers, and circuits, together with the controls performed at the different stages in the sales process to verify the authenticity and content of orders, together with shipment and billing thereof.

In addition, a member of the Executive Committee conducts one or more monthly reviews of current business with each region and subsidiary.

Finally, procedures have been put in place for more effective monitoring of sales teams' performance, including tracking their fulfilment of targets and of individual performance (business expertise, knowledge of Lectra's products and services, and their proficiency in sales methods and tools).

- Credit Management

Credit management procedures are designed to limit the risks of non-recovery and shorten account collection delays. These procedures also track all Group accounts receivable above a certain threshold, providing for both upstream control of contractual payment terms and the customer's solvency prior to booking of the order, together with the systematic and sequenced implementation of all means of recovery, from simple reminders to legal proceedings. These means of recovery are coordinated by the credit management department in conjunction with the Legal Affairs department.

Historically, bad debts and customer defaults have been rare.

There is no material risk of dependence on any particular customer, insofar as over the three years 2013-2015, no individual customer has represented more than 7% of consolidated revenues, and the 10 largest customers combined have represented less than 20% of revenues, and the 20 largest customers less than 25%.

- Purchasing

The parent company's purchases and capital expenditure account for the bulk of Group outlays under these headings. Procedures are in place to ensure that all purchases from third parties are compliant with budgetary authorizations. They further spell out formally the delegations of powers regarding expenditure commitments and signatures, based on the principle of the separation of tasks within the process. The information system now in place reinforces the process of control over the proper application of rules.

- Personnel

Under the procedures in place all forecasted or actual personnel changes are communicated to the Group Human Resources division. All recruitments and dismissals must receive the division's prior authorization. In the case of dismissals, the division must systematically assess the actual and forecasted costs of the dismissal and communicate its findings to the Finance division, which in turn ensures that the resulting liability is recognized in the Group financial statements.
Compensation is reviewed annually and submitted to the Chief Human Capital Officer for approval.
Finally, for all personnel whose total annual compensation exceeds €150,000 or its equivalent in foreign currencies, the Executive Committee submits the annual compensation review, together with rules for the calculation of variable compensation, to the Compensation Committee for prior approval.
These procedures are now monitored more strictly in light of the significant recruitment plan in place for the period 2012-2015.

- Treasury and Currency Risk

The company's internal control procedures regarding treasury operations mainly concern bank reconciliations, security of payment means, delegation of signing authority, and monitoring of currency risk.

Bank reconciliation procedures are systematic and comprehensive. They entail verification of all entries in the company's bank accounts made by the banks, together with reconciliation between treasury balances and the cash and bank accounts within the financial statements.
The company has implemented secure means of payment to avoid or limit as far as possible all risks of fraud, and agreements covering check security have been signed with each of the company's banks. The company uses the EBICS TS protocol to secure payments made by bank transfer.
Bank signature authorizations for each Group company are governed by written procedures laid down by the Executive Committee or the Group Finance division and are revocable at all times with immediate effect. Signing powers delegated under these procedures are notified to the banks, which must acknowledge receipt thereof.
Recourse to short and medium-term borrowing is strictly limited and is subject to prior approval by the Chief Financial Officer within the framework of delegations previously authorized by the Board of Directors.
All decisions pertaining to currency hedging instruments are made jointly by the Chief Executive Officer and the Chief Financial Officer, and are implemented by the Group Treasurer.

2.2.2. Identification and Management of Risks

Risk factors and risk management processes are described in detail in chapter 4 of the Management Discussion to which this report is appended.

2.2.3. Control Activity: Players Involved in Risk Control and Management Processes

The Group does not have an internal audit department as such, but the Group Finance division—in particular the treasury and management control teams—and the department of Legal Affairs are central to the internal control and risk management system.
Controls are in place at many points throughout the Group's organization. These are adapted to the critical aspects of the processes and risks to which they apply, depending on their influence on the performance and fulfilment of Group objectives. Controls are conducted by means of IT applications, procedures subject to systematic manual control, via ex-post audits, or via

the chain of command, in particular by members of the Executive Committee. Spot checks are also performed in the various Group subsidiaries.
In each subsidiary, the person in charge of finance and administration, which usually comprises legal affairs, also plays a major role in the organization and conduct of internal controls. The primary mission of this person, who reports functionally to the Group Finance division, is to ensure that the subsidiary complies with the rules and procedures established by the Executive Committee and the corporate divisions.
The Information Systems division is responsible for guaranteeing the integrity of data processed by the various software packages in use within the Group. It works with the Group Finance division to ensure that all automated processing routines contributing to the preparation of financial information are compliant with accounting rules and procedures. In addition, it verifies the quality and completeness of information transferred between the different software applications. Finally, it is responsible for information systems security.
The Group Legal Affairs department and Human Resources division perform legal and social audits of all Group subsidiaries. Their role notably consists in verifying that their operations are compliant with the laws and other legal and social regulations in force in the countries concerned. They also supervise most of the contractual relations entered into between Group companies and employees or third parties.
The Legal Affairs department works with a network of law firms located in the countries concerned and specializing in the subjects at issue, as needed. The Legal Affairs department is also responsible for identifying risks requiring insurance and formulating a policy for covering these risks by means of appropriate insurance contracts. It supervises and manages potential or pending litigation, in conjunction with the Group's attorneys where appropriate.
Currency risk is managed centrally by the Group Treasurer. Group exposure is hedged by a range of derivative instruments: forward currency contracts are used to hedge foreign exchange balance sheet positions; purchases of currency puts (calls euros / puts dollars)—when their cost relative to their benefits is not prohibitive—or forward contracts are utilized to hedge estimated exposure to fluctuations in billing currencies for future periods, when these are considered justified.
A dedicated intellectual property team functions as part of the Legal Affairs department. It acts preventively to protect innovations and avert all risks of infringement of the company's intellectual property rights.
Finally, the Board of Directors works with a specialized law firm for all legal and regulatory issues governing listed companies.

2.2.4. Continuous Oversight of the Internal Control System and Improvement of Procedures

Incidents observed on the occasion of controls or the findings of ex-post audits of compliance with internal control rules and procedures serve both to ensure the latter's proper functioning, and continuous improvement.
Given the nature of its business, the Group is compelled to adapt its organization to market changes whenever necessary. In particular, it has accelerated deployment of its transformation plan over the period 2012-2015.
Each change in its organization or modus operandi is preceded by a review process to ensure that the proposed change is consistent with the preservation of an internal control environment complying with the objectives described in chapter 2.1 above. Within this context, the scope and distribution of the powers of individuals and teams, reporting lines and rules for the delegation of signing authority, are subject to scrutiny and are adjusted, if necessary, during all organizational changes.
Oversight of internal controls is underpinned by a continuous improvement process focused notably on:
– updating the Group's risk mapping;
– updating and/or formalizing accounting and financial procedures, procedures relating to human resources management and internal control rules;
– updating and improving reporting tools;
– general improvements in IT systems and resources.
This matter is the subject of a specific communication to the Audit Committee and discussion at least once a year.

2.3. Specific Procedures to Ensure the Reliability of Accounting and Financial Information

In addition to the elements described in the foregoing paragraphs, the Group has implemented precise procedures for the preparation and control of accounting and financial information. This is notably the case regarding reporting and budget procedures, and procedures for the preparation and verification of the consolidated financial statements, which are an integral part of the internal control system. Their purpose is to ensure the quality of accounting and financial information communicated to management teams, the Audit Committee, the Board of Directors, and to the shareholders and the financial markets, with particular reference to the consolidated and statutory financial statements.

The Finance division regularly identifies risks liable to impair the compilation and processing of accounting and financial information, together with the quality of this information. It communicates continuously with the accounting and Finance divisions of the Group's subsidiaries to ensure that these risks are managed. This analysis and centralized risk management process are additional to the procedures described below to reduce the risks of deliberate or involuntary error in the accounting and financial information published by the company.

2.3.1. Reporting and Budget Procedures

The company produces comprehensive and detailed financial reporting covering all aspects of the activities of each parent company unit and each subsidiary. This is based on a sophisticated financial information system built around a market-leading software package.

Reporting procedures are based primarily on the budgetary control system put in place by the Group.

The Group's annual budget is prepared centrally by the Group Finance division management control teams. This detailed, comprehensive process consists in analyzing and quantifying the budgetary targets of each subsidiary and Group unit under a very wide range of income statement and treasury headings, working capital requirements, together with indicators specific to each activity and the structure of operations. This system permits rapid identification of any deviation in actual or forecast results, and thereby minimizes the risk of error in the financial information produced.

2.3.2. Accounts Preparation and Verification Procedures

(a) Monthly Financial Results

The actual results of each Group company are verified and analyzed on a monthly basis, and new forecasts for the current quarter are consolidated. Each deviation is identified and described in detail in order to determine its causes, verify that procedures have been respected and the financial information properly prepared. This approach is designed to ensure that transactions recorded in the accounts fully reflect the economic reality of the Group's business and operations.

Assets and liabilities are subject to regular controls to ensure the accuracy of monthly reported results. These controls include physical counting of fixed assets and reconciliation with accounts; a revolving physical count of inventories (the most important references being counted four times a year); a comprehensive monthly review by the Finance division of overdue accounts receivable; a monthly analysis of provisions for risks and charges, and provisions for asset impairment.

(b) Quarterly Consolidation

Group financial statements (statement of financial position, income statement, statement of cash flows, and statements of changes in equity) are consolidated on a quarterly basis. The process of preparing the consolidated financial statements comprises a large number of controls to ensure the quality of the accounting information communicated by each of the consolidated companies and of the consolidation process itself.

All Group subsidiaries employ a single standard consolidation reporting package and the procedure is subject to a wide range of precise controls. Actual results are compared with forecasts received previously in the monthly reporting procedure. Discrepancies are analyzed and justified and, more generally, the quality of information transmitted is verified. Upon completion of the consolidation process, all items in the income statement, statement of financial position and statement of cash flows are analyzed and justified.

The resulting financial statements are reviewed by the Chief Executive Officer, by the Chairman of the Board of Directors in the course of organizing the work of the Board of Directors, and then submitted to the Audit

Committee, before being reviewed and approved by the Board of Directors, and published by the company.

2.4. Specific Mechanism to Guarantee the Reliability of Corporate Social and Environmental Information

The specific procedures for collecting and ensuring the reliability of corporate social and environmental information, and for preparing the annual "Grenelle II" report, publication of which is now mandatory since the coming into effect of the "Grenelle II" Act in 2012, is now fully operational, under the supervision of Chief Financial Officer and the Chief Human Capital Officer and Information Systems Officer.

3. PRINCIPLES AND RULES ESTABLISHED BY THE BOARD OF DIRECTORS FOR DETERMINING THE COMPENSATION AND BENEFITS OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS

The recommendations of the AFEP-MEDEF Code:
– spell out principles for setting the compensation of executive directors of listed companies;
– prohibit the simultaneous holding of a position as executive director and an employment contract;
– place a cap on one-time termination payments ("golden parachutes") to two years' compensation, and abolish the granting of indemnities in the event of voluntary resignation and in the event of failure;
– strengthen the rules governing pension plans and place a cap on additional pension benefits;
– make stock option plans for senior managers conditional on the extension of such option plans to all employees or to the existence of mechanisms entitling all employees to a share of profits;
– terminate the granting of bonus shares unrelated to performance to executive directors; the latter must also purchase shares at market price additional to any performance-related shares granted to them;
– make compensation policies more transparent by means of a standardized disclosure format.
In its statement on November 28, 2008, the company declared that:
– it had already been in spontaneous compliance with these recommendations for many years with regard to André Harari and Daniel Harari in their respective capacities as Chairman of the Board of Directors and Chief Executive Officer;
– in particular, André Harari and Daniel Harari have never combined their positions as executive Directors with an employment contract, are not entitled to any component of compensation, indemnity or benefit owed or liable to be owed to them in virtue of a termination or change of their functions, to any additional defined benefit pension plan, stock options or bonus shares.
Detailed information additional to the disclosures below is provided in the Management Discussion and Analysis to which this report is amended, particularly regarding the compensation of the executive directors.

3.1. Executive Directors

The sole executive directors are André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer. The compensation policy as decided by the Board of Directors is strictly identical for the Chairman and for the Chief Executive Officer since the separation of their functions in 2002, as was previously the case. In particular, it takes into account the specific duties of the Chairman of the Board of Directors, who devotes the necessary time to these duties. Consistent with the prescriptions of the Internal Rules and Procedures, he holds no appointments in other companies.
Acting in concert, the Chairman and the Chief Executive Officer are jointly accountable for the outcome of the strategy pursued by the Group under their leadership. Their significant stake in the capital ensures their interests are strongly aligned with those of the shareholders and the financial performance of the Group. Their compensation comprises a fixed portion and an annual variable portion. It does not include any multi-year variable compensation.
The company does not award them bonuses in any form. This policy is clear, consistent with the long-term strategy, objectives and challenges of the Group, and directly linked to its performance. It has proved its worth both in tough years and in years of record profits. The principles and rules for determining the compensation and benefits of executive directors are subject to prior review and recommendation by the Compensation Committee. This Committee notably reviews total

compensation and the precise rules for determining its variable portion and the specific annual performance targets that serve to calculate it. All of these components are then discussed by the Board of Directors in full session and are subject to its sole discretion.

Since 2014, all elements of the executive directors' potential or actual compensation are published on the company's website after the meeting of the Board of Directors held to approve them (they were published on February 11, 2015 and February 11, 2016).

The provisions of the AFEP-MEDEF Code in its revised version of June 2013 state in particular that *"variable compensation is a reward for the director's performance and the progress of the company in the period under consideration. The share price must not be the only criteria for measuring this performance".* As stated below, the share price is not included among these criteria. The variable compensation *"must be set at a level that is balanced in relation to the fixed part. The variable part is a maximum percentage of the fixed part, and is adapted to the business conducted by the company and predefined by the Board"; "without jeopardizing the confidentiality that may be linked to certain elements of determining the variable part of the compensation, this presentation must indicate the criteria on the basis of which this variable part is determined":* this has been the Board of Directors' practice at all times, consistently reporting how these criteria have been applied on the basis of results for the year in review.

The compensation of executive directors is paid in its entirety by Lectra SA. They receive no compensation or particular benefit from companies controlled by Lectra SA within the meaning of article L. 233-16 of the French Commercial Code (Lectra SA is not controlled by any company). No stock options have been granted to the two executive Directors since 2000. The only benefit accorded to them in force in 2015 concerns the valuation for tax purposes of the utilization of company cars, the amount of which is indicated in the Management Discussion and Analysis of the Board of Directors.

Finally, the executive directors are not the beneficiaries of any particular arrangement or specific benefit regarding deferred compensation, termination payment or retirement benefit committing the company to pay them any form of indemnity or benefit if their duties are terminated, at the time of their retirement (they are not bound to the company by any form of employment contract) or, more generally, subsequent to the termination of their functions.

In view of the foregoing, the company is compliant with the recommendations laid down in the June 2013 amended version of the AFEP-MEDEF Code, strengthening the rules governing elements of executive directors' compensation—not applicable in the case of this company—notably introducing specific requirements relating to non-competition clauses and to start-of-contract indemnities, or with regard to caps on additional pension benefits.

Each year the Board of Directors first determines the amount of target-based total compensation for the year. At its meeting on February 12, 2013, the Board set the annual target-based total compensation of the Chairman of the Board of Directors and the Chief Executive Officer for the three years, 2013, 2014, and 2015.

Conditional upon the fulfilment of annual targets, variable compensation is equal to 60% of total compensation. Variable compensation is set in accordance with the following four clear and complementary quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets, reflecting the company's strategy of profitable sales activity and earnings growth and determined according to clear criteria.

In its meeting of February 11, 2015, the Board maintained for fiscal 2015 the four performance criteria that had been set for 2014 (these criteria have been in force since 2011; however, the relative weighting of each of them had evolved in 2014, placing special emphasis on realization of the company's strategy of profitable sales activity growth): (i) a criterion measuring the contributive value of growth in sales activity (accounting for 50%); (ii) consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 30%); (iii) consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after restatement of certain items (accounting for 10%); and (iv) a criterion measuring the contributive value of recurring contracts (accounting for 10%). The corresponding calculations eliminate the impact of actual currency variations relative to those used to set the targets.

For each of these four criteria, the corresponding variable compensation is equal to zero below certain thresholds, if annual targets are met, it is 100%, and it is capped at 200% if annual targets are exceeded. Between these thresholds, it is calculated on a linear basis. The results are then weighted for each criterion. Only the annual targets and corresponding thresholds are revised each year according to the Group's objectives for the fiscal year.
Consequently, variable compensation is equal to zero if none of these thresholds is met, and is capped at 200% of target-based variable compensation if the annual targets are exceeded on all criteria and result in the ceiling of 200% for each of them.
Total compensation may therefore vary depending on performance, ranging from 40% and 160% of the total target-based compensation.
Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent and in line with the evaluation of executive directors' performance, with progress made in implementing the company's medium-term strategy, general macroeconomic conditions, and in particular those of the geographic markets and market sectors in which the company operates. After the close of each fiscal year, the Committee verifies the annual application of these rules and the final amount of variable compensation, on the basis of the audited financial statements.
These criteria and targets apply also to the three members of the Executive Committee who are not executive directors, and to around fifteen managers of the parent company Lectra SA; only the relative weighting given to each criterion and the portion relating to target-based variable compensations, which is set individually for each manager, vary.
Last year, the Board of Directors stated its intention henceforward to apply the principle of a three-yearly review of the compensation of the executive directors. These compensation packages were therefore to be reviewed and set for the new three-year period from 2016 through 2018. However, despite the significant development of the company's financial results between 2013 and 2015, as reflected in its strengthening global leadership and competitiveness, the steep increase in shareholders' equity thanks to its free cash flow, the strengthening of its key operating fundamentals, expanding sales, earnings and operating margin, in spite of persistently tough macroeconomic conditions, the Chairman and the Chief Executive Officer have expressed the wish that the Board maintain their total compensation unchanged for fiscal 2016. This is consistent with the extension to include 2016 of the current roadmap, which was originally intended to cover the three-year period from 2013 through 2015, on the one hand, and with the fact that revenues and earnings have fallen below the roadmap's original financial goals.
The Board of Directors has therefore maintained unchanged their total compensation, together with the fixed and variable portions of this compensation for the completion of this roadmap on the other.
It has also maintained unchanged for 2016 the four performance criteria used to determine their variable compensation, and their relative weighting, as set for 2015 and 2014.
The compensation of the Chairman and of the Chief Executive Officer will be reviewed and set by the Board of Directors at its meeting on February 9, 2017 for the three-year period from 2017 through 2019, coinciding with the period covered by the new strategic roadmap.
Executive Directors also receive directors' fees in addition to the fixed and variable compensation.
In its June 2013 amended version, the AFEP-MEDEF Code links the granting of compensation to executive directors to the ownership and retention until the end of their term of office of a significant number of company shares, periodically determined by the Board. In view of the very large percentage of shares held by the Chairman of the Board and by the Chief Executive Officer, the Board has not deemed fit to specify a number of shares.

Consultation of Shareholders on Individual Executive Directors' Compensation

As stated in the Management Discussion and Analysis of Financial Condition and Results of Operations, the June 2013 amended version of the AFEP-MEDEF Code introduces new recommendations on corporate governance, including in particular a procedure for the annual consultation of shareholders on individual executive directors' compensation, in application of the "say on pay" principle. This entails submitting

for shareholders' approval separate resolutions for each executive director. In the event of a negative vote, the Board of Directors, acting on the opinion of the Compensation Committee, is required to vote on the matter and to publish on the company's website a statement indicating how it intends to respond to the expectations of the shareholders.
Shareholders are invited to express their opinion on the compensations of the Chairman of the Board and the Chief Executive Officer, for the fiscal year 2015, on the occasion of the Ordinary Shareholders' Meeting on April 29, 2016.

3.2. Non-Executive Directors

Non-executive directors—i.e. the two independent directors—receive no form of compensation other than directors' fees. The same will apply for the third independent director.

3.3. Directors Fees

Directors' fees approved annually by the General Shareholders' Meeting are distributed equally among the directors.
In view of the strong commitment displayed by the members of the Board of Directors, in particular the historically high rate of attendance at meetings of the Board of Directors and its Committees, and the number of meetings, the Board has not seen fit to follow the recommendation of the AFEP-MEDEF Code and institute a variable portion dependent on attendance in calculating the payment of directors' fees or a supplementary fee to encourage directors' participation in specialized committees.
The company has applied this method of allocation, distributing the fees equally among the directors and with no variable portion, for very many years. It has proved its effectiveness and reinforced the collegiate sense and spirit of solidarity among the directors. It acknowledges the directors' 100% attendance rate at Board meetings and the 100% attendance rate at meetings of the Board Committees. Directors receive no additional attendance fees for their attendance at meetings of the Audit, Compensation and Strategic Committees.

The Board has nevertheless decided to comply with the corresponding recommendation of the AFEP-MEDEF Code, starting in fiscal 2016, by:
– adopting a procedure for the allocation of the total directors' fees decided by the Shareholders' Meeting, having due regard for the effective attendance of directors at meetings of the Board and Committees, with a predominantly variable share;
– apportioning an additional amount in directors' fees to non-executive directors for membership of the Board's specialized Committees;
– apportioning an additional amount to the Chairs of the Audit Committee and the Compensation Committee (André Harari, Chairman of the Strategic Committee, will receive no additional compensation in respect of this chairmanship).
The variable portion actually apportioned to each director will be based on an attendance percentage equal to the number of meetings effectively attended by the director divided by the number of meetings held.

4. PROHIBITION ON TRADING IN SHARES APPLICABLE TO CERTAIN GROUP MANAGERS

The Board of Directors decided on May 23, 2006, in keeping with the rules of corporate governance and, since its publication, with the AFEP-MEDEF Code, to prohibit members of the corporate management and management teams of the Lectra Group from buying or selling the company's shares during the period starting fifteen calendar days before the end of each calendar quarter and expiring two stock market trading days after the meeting of the Board of Directors closing the quarterly and the annual financial statements of the Lectra Group.
However, contrary to the recommendations of the AFEP-MEDEF Code, but as the High Committee on Corporate Governance is inclined to accept it in its 2015 report, this prohibition does not apply to the exercise of stock options during the period in question by any person figuring on the list drawn up by the Board of Directors, but the said persons are required to hold any resulting shares until the expiration of the period.
The Board of Directors has further decided that, in addition to each of its members, only the three

members of the Executive Committee who do not hold a directorship have "the power to make management decisions regarding the company's development and strategy" and "regular access to inside information", and are therefore required to notify the AMF within the stipulated deadlines of any purchases, sales, subscriptions or exchanges of financial instruments issued by the company.
Daniel Dufag, the company's General Counsel, has been named compliance officer for all matters pertaining to the General Regulation of the AMF concerning the drawing up of lists of insiders. His duties include adapting the guidelines published by the ANSA and to draw up the guide to procedures specific to Lectra, to draw up lists of permanent and occasional insiders, to notify these people individually in writing, accompanied by a memorandum spelling out the procedures specific to Lectra.
The list is regularly updated by the Board of Directors to indicate the people on this list that have left the company, together with those whom the General Management proposes to add to this list in virtue of their new duties or because they have reached a level of responsibility and information within the Group justifying their inclusion, or because they have been recently recruited. This list is reviewed and approved at least once a year by the Board of Directors.

5. SPECIFIC FORMALITIES FOR ATTENDANCE AT SHAREHOLDERS' MEETINGS

The right of attendance at shareholders' meetings, to vote by correspondence or to be represented, is subject to the following conditions:
– for registered shareholders *(actionnaires nominatifs):* shares must be registered in their name or in the name of an authorized intermediary in the company register, which is maintained by Société Générale in its capacity as bookkeeper and company agent, at zero hour, Paris time, on the second working day preceding the day set for the said Meeting;
– for holders of bearer shares *(actionnaires au porteur):* receipt by the General Meetings department of Société Générale of a certificate of attendance noting the registration of the shares in the register of bearer shares at zero hour, Paris time, on the second working day preceding the day set for the said Meeting, delivered by the financial intermediary (bank, financial institution or brokerage) that holds their account.
Shareholders not attending this Meeting in person may vote by correspondence or may vote by proxy by giving their proxy voting form to the Chairman of the Meeting, to their spouse or partner, or to another shareholder or any other person of their choice, in accordance with the law and regulations, and in particular, those laid down in article L. 225-106 of the French Commercial Code.
Shareholders are free to dispose of their shares in whole or in part until the time of the Meeting. However, if the disposal takes place before zero hour, Paris time, on the second working day preceding the day set for the said Meeting, the financial intermediary that holds their account shall notify the disposal to Société Générale, and shall transmit the necessary information. The company shall invalidate or modify the vote by correspondence, proxy vote, admission card or the certificate of attendance in consequence of the foregoing. However, if the disposal takes place after zero hour, Paris time, on the second working day preceding the day set for the said Meeting, it will not be notified by the financial institution holding the account, nor taken into consideration by the company for the purposes of attendance at the Shareholders' Meeting.
Registered shareholders and holders of bearer shares unable to attend the Meeting in person may vote by correspondence or by proxy by applying to Société Générale for a voting form at least six days before the date of the Meeting.
Correspondence and proxy voting forms together with all documents and information relating to the Meetings are available on the company website at www.lectra.com at least twenty-one days before the time of these Meetings. These documents are also obtainable on request, free of charge, from the company.
Written questions for submission to the Meeting may be addressed to the company at its headquarters: 16-18, rue Chalgrin, 75016 Paris, or by electronic mail at the following e-mail address: investor.relations@lectra.com on the fourth working day preceding the day set for the Meeting at the latest, and must be accompanied by proof of registration as a shareholder.
All correspondence and proxy voting forms sent by post must reach Société Générale on the day prior to the date of the Meeting at the latest.

As required in article R. 225-79 of the French Commercial Code, notification of designation and revocation of a proxy may also be communicated electronically, by sending an electronically signed mail, employing a reliable procedure for identification of the shareholder guaranteeing that the notification was effectively sent by the said shareholder, to investor.relations@lectra.com.

Shareholders holding a fraction of the capital defined in articles L. 225-102 paragraph 2 and R. 225-71 paragraph 2 of the French Commercial Code must transmit any draft resolutions they wish to place on the agenda of the Meeting at least twenty-five days prior to the date of the Meeting.

Practical details pertaining to the above will be communicated in the notice of Meeting sent to the shareholders.

6. PUBLICATION OF INFORMATION CONCERNING POTENTIALLY MATERIAL ITEMS IN THE EVENT OF A PUBLIC TENDER OFFER

As required under article L. 225-37 paragraph 9 of the French Commercial Code, potentially material information is disclosed in chapter 8 of the Management Discussion and Analysis to which this report is appended, under "Information Concerning Items Covered by Article L. 225-100-3 of the French Commercial Code as Amended by the March 31, 2006 Public Tender Offers Act."

André Harari
Chairman of the Board of Directors
February 25, 2016

Consolidated financial statements

STATEMENT OF FINANCIAL POSITION
consolidated

ASSETS

At December 31 (in thousands of euros)		2015	2014[1]
Goodwill	note 6	32,769	31,724
Other intangible assets	note 7	4,890	4,406
Property, plant and equipment	note 8	19,706	16,447
Non-current financial assets	note 9	2,100	2,048
Deferred tax assets	note 11	8,696	8,005
Total non-current assets		**68,161**	**62,630**
Inventories	note 12	23,326	21,848
Trade accounts receivable	note 13	53,404	50,531
Other current assets	note 14	31,493	32,149
Cash and cash equivalents		59,347	43,484
Total current assets		**167,570**	**148,012**
Total assets		**235,731**	**210,642**

EQUITY AND LIABILITIES

(in thousands of euros)		2015	2014[1]
Share capital	note 15	30,786	30,329
Share premium	note 15	9,018	7,282
Treasury shares	note 15	(203)	(133)
Currency translation adjustments	note 16	(8,194)	(8,503)
Retained earnings and net income		81,547	65,327
Total equity		**112,954**	**94,302**
Retirement benefit obligations	note 17	8,420	8,479
Borrowings, non-current portion	note 18	-	-
Total non-current liabilities		**8,420**	**8,479**
Trade and other current payables	note 19	57,561	53,216
Deferred revenues	note 20	50,325	48,096
Current income tax liabilities	note 11	3,561	2,857
Borrowings, current portion	note 18	-	394
Provisions for other liabilities and charges	note 21	2,910	3,298
Total current liabilities		**114,357**	**107,861**
Total equity and liabilities		**235,731**	**210,642**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated statement of financial position at December 31, 2014 (see note 2 hereafter).

The notes are an integral part of the consolidated financial statements.

INCOME STATEMENT
consolidated

Twelve months ended December 31 (in thousands of euros)		2015	2014[1]
Revenues	note 24	**237,886**	**211,336**
Cost of goods sold	note 25	(58,580)	(55,606)
Gross profit	note 25	**179,306**	**155,730**
Research and development	note 26	(14,317)	(13,479)
Selling, general and administrative expenses	note 27	(133,169)	(122,445)
Income from operations		**31,820**	**19,806**
Financial income	note 30	245	394
Financial expenses	note 30	(462)	(418)
Foreign exchange income (loss)	note 31	(487)	(361)
Income before tax		**31,116**	**19,421**
Income tax	note 11	(7,738)	(5,051)
Net income		**23,377**	**14,370**
(in euros)			
Earnings per share	note 32		
– basic		0.76	0.48
– diluted		0.74	0.47
Shares used in calculating earnings per share			
– basic		30,625,563	29,961,651
– diluted		31,498,591	30,750,854

STATEMENT OF COMPREHENSIVE INCOME

Twelve months ended December 31 (in thousands of euros)		2015	2014[1]
Net income		**23,377**	**14,370**
Currency translation adjustments	note 16	224	382
Tax effect		85	(164)
Other comprehensive income to be reclassified in net income		**309**	**218**
Remeasurement of the net liability arising from defined benefits pension plans	note 17	398	(960)
Tax effect		(108)	311
Other comprehensive income not to be reclassified in net income		**290**	**(649)**
Total other comprehensive income		**599**	**(431)**
Comprehensive income		**23,976**	**13,939**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2 hereafter).

The notes are an integral part of the consolidated financial statements.

STATEMENT OF CASH FLOWS
consolidated

Twelve months ended December 31 (in thousands of euros)		2015	2014[1]
I – OPERATING ACTIVITIES			
Net income		23,377	14,370
Net depreciation, amortization and provisions		7,276	4,778
Non-cash operating expenses	note 36	(553)	(1,051)
Loss (profit) on sale of fixed assets		(5)	63
Changes in deferred income taxes	note 11	(393)	(304)
Changes in inventories		(2,618)	(1,435)
Changes in trade accounts receivable		(2,593)	3,872
Changes in other current assets and liabilities		5,159	5,458
Net cash provided by (used in) operating activities	note 37	**29,650**	**25,751**
II – INVESTING ACTIVITIES			
Purchases of intangible assets	note 7	(2,083)	(1,898)
Purchases of property, plant and equipment	note 8	(6,134)	(4,880)
Proceeds from sales of intangible assets and property, plant and equipment		58	47
Acquisition cost of activities purchased	note 2	-	(1,560)
Purchases of financial assets	note 9	(2,740)	(2,547)
Proceeds from sales of financial assets	note 9	2,787	2,574
Net cash provided by (used in) investing activities		**(8,112)**	**(8,264)**
III – FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	note 15	2,194	2,904
Dividends paid	note 4	(7,646)	(6,554)
Purchases of treasury shares	note 15	(2,629)	(2,403)
Sales of treasury shares	note 15	2,603	2,401
Flows on financial derivatives qualifying net investment hedges		-	484
Repayments of long-term and short-term borrowings	note 38	(394)	(500)
Net cash provided by (used in) financing activities		**(5,872)**	**(3,668)**
Increase (decrease) in cash and cash equivalents		**15,666**	**13,819**
Cash and cash equivalents at opening		**43,484**	**29,534**
Increase (decrease) in cash and cash equivalents		15,666	13,819
Effect of changes in foreign exchange rates		197	131
Cash and cash equivalents at closing		**59,347**	**43,484**
Free cash flow	note 39	**21,538**	**19,047**
Income tax (paid) / reimbursed, net		(4,262)	(2,997)
Interest paid		-	-

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated statement of cash flows at December 31, 2014 (see note 2 hereafter).

The notes are an integral part of the consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

consolidated

(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
Balance at January 1, 2014[1]		**29,664,415**	**1.00**	**29,664**	**5,043**	**(83)**	**(8,721)**	**58,063**	**83,966**
Net income								14,370	14,370
Other comprehensive income							218	(649)	(431)
Comprehensive income							**218**	**13,721**	**13,939**
Exercised stock options	note 15	664,699	1.00	665	2,239				2,904
Fair value of stock options	note 15							136	136
Sale (purchase) of treasury shares	note 15					(50)			(50)
Profit (loss) on treasury shares	note 15							32	32
Other variations								(71)	(71)
Dividends paid								(6,554)	(6,554)
Balance at December 31, 2014[1]		**30,329,114**	**1.00**	**30,329**	**7,282**	**(133)**	**(8,503)**	**65,327**	**94,302**
Net income								23,377	23,377
Other comprehensive income							309	290	599
Comprehensive income							**309**	**23,667**	**23,976**
Exercised stock options	note 15	457,285	1.00	457	1,737				2,194
Fair value of stock options	note 15							167	167
Sale (purchase) of treasury shares	note 15					(70)			(70)
Profit (loss) on treasury shares	note 15							30	30
Dividends paid								(7,646)	(7,646)
Balance at December 31, 2015		**30,786,399**	**1.00**	**30,786**	**9,018**	**(203)**	**(8,194)**	**81,547**	**112,954**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated statement of changes in equity at January 1, 2014 and at December 31, 2014 (see note 2 hereafter).

The notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All amounts in the tables are in thousands of euros, unless otherwise indicated.

The Lectra Group, hereafter the Group, refers to Lectra S.A., hereafter the company, and its subsidiaries. The Group's consolidated financial statements were drawn up by the Board of Directors on February 25, 2016 and will be proposed to the General Meeting of Shareholders for approval on April 29, 2016.

NOTE 1 BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed since 1987 on Euronext (compartment B). Lectra is the world leader in software, CAD/CAM equipment and associated services dedicated to large-scale users of fabrics, leather, technical textiles and composite materials. Lectra addresses a broad array of major global markets, mainly fashion and apparel, automotive (car seats and interiors, airbags), furniture as well as a wide variety of other industries, such as the aeronautical and marine industries, and wind power.

The company's technology offer is geared to the specific needs of each market, enabling its customers to design, develop and manufacture their products (garments, seats, airbags, etc.). For the fashion and apparel industry, Lectra's software applications also facilitate the management of collections and cover the entire product lifecycle (Product Lifecycle Management, or PLM).

Lectra forges long-term relationships with its customers and provides them with full-line, innovative solutions.

The Group's customers comprise large national and international corporations and medium-sized companies. Lectra helps them overcome their major strategic challenges: cutting costs and boosting productivity; reducing time-to-market; managing globalization; developing secure electronic communications; enhancing quality; satisfying the demand for mass-customization; and monitoring and developing their corporate brands.

The Group markets end-to-end solutions comprising the sale of software, CAD/CAM equipment and associated services (technical maintenance, support, training, consulting, sales of consumables and spare parts).

All Lectra software and equipment is designed and developed in-house. Equipment is assembled from sub-elements produced by an international network of subcontractors and tested in the company's industrial facilities in Bordeaux-Cestas (France) where most of Lectra's R&D is performed.

Lectra's strength lies in the skills and experience of its more than 1,500 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of their customers' businesses.

The Group has been present worldwide since the mid-1980s. Based in France, the company serves its customers in more than 100 countries through its extensive network of 33 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivaled network, Lectra generated 91% of its revenues directly in 2015. Its five International Call Centers, in Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) and Shanghai (China) cover Europe, North America and Asia. All of the company's technologies are showcased at its International Advanced Technology & Conference Center in Bordeaux-Cestas (France) for Europe and international visitors, and its two International Advanced Technology Centers in Atlanta (USA) for North and South America, and Shanghai (China) for Asia and the Pacific. Lectra is geographically close to its customers wherever they are, with over 830 employees dedicated to marketing, sales and services in the world. It employs more than 260 engineers dedicated to R&D, and nearly 160 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

BUSINESS MODEL

Lectra's business model is based on three pillars:

– a balance of risks, which benefit from natural hedging by the distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and by the very large number of customers throughout the world;

– a balanced revenue mix between revenues from new systems sales, the company's growth driver, and revenues from recurring contracts and consumables and spare parts, a key factor in the company's stability, that provide a cushion in periods of difficult economic conditions;

– the generation of annual free cash flow exceeding net income, assuming utilization or receipt of the annual research tax credit and the competitiveness and employment tax credit applicable in France.

NOTE 2 ACCOUNTING RULES AND METHODS

NOTE 2.1 CURRENT ACCOUNTING STANDARDS AND INTERPRETATIONS

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:
http://ec.europa.eu/finance/accounting/ias/index_en.htm
The consolidated financial statements at December 31, 2015 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2014 financial statements, completed by the application of the IFRIC 21 interpretation presented below. They have been prepared under the responsibility of the Board of Directors that reviewed them at its meeting of February 25, 2016 and audited by the Statutory Auditors.
The other standards and interpretations adopted by the European Union and applicable for fiscal years starting from January 1, 2015 had no impact on the Group's financial statements.
The Group has not early adopted any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2015, in particular IFRS 15—Revenue from contracts with customers and IFRS 9—Financial instruments.
The impacts of the application of these standards are under review.

Application of interpretation IFRIC 21—Levies

The Group has applied the IFRIC 21—Levies interpretation, mandatory for fiscal years starting from January 1, 2015. The retrospective application of this interpretation has led it to restate the published statements for 2014. The impacts on the consolidated statement of income are limited to the captions "Selling, general and administrative expenses", "Income from operations" (for the same amount), "Income tax" and "Net income":

2014: quarter ended	March 31	June 30	September 30	December 31	2014
Income from operations:					
– published	2,301	3,818	7,260	6,402	19,781
– restated	1,918	3,949	7,387	6,552	19,806
Net income:					
– published	1,838	2,768	5,077	4,670	14,353
– restated	1,585	2,854	5,161	4,770	14,370

NOTE 2.2 CURRENT ASSETS AND LIABILITIES

The Group's consolidated financial statements are prepared on a historical cost basis with the exception of the assets and liabilities listed below:
– cash equivalents, recorded at fair value in the income statement;
– loans and receivables, together with borrowings and financial debts, trade payables and other current financial liabilities, recognized at their amortized cost;
– derivative financial instruments, recorded at fair value. The Group uses such instruments to hedge its foreign exchange risks and recognizes them at fair value in the income statement, and to hedge interest-rate risk, and then recognizes them at fair value in other comprehensive income (see note 3 "Risk Management Policy").
Current assets comprise assets linked with the normal operating cycle of the Group, assets held with a view to disposal within the next twelve months after the close of the financial year, together with cash and cash equivalents. All other assets are non-current. Current liabilities comprise debts maturing in the course of the normal operating cycle of the Group or within the next twelve months after the close of the financial year.

NOTE 2.3 GOODWILL

Goodwill solely relates to controlled entities. Other interests held are either accounted for under the equity method for entities held under significant influence, or classified as non-current financial assets.
Goodwill is calculated at the acquisition date, as the difference between (i) the total of the fair value of the consideration transferred and the amount of non-controlling third-party interest in the acquiree, and (ii) the net of the amounts of the identifiable assets acquired and the liabilities assumed.
Goodwill recognized in a foreign currency is translated at the year-end exchange rate.
Each goodwill is allocated to a Cash Generating Unit (CGU) defined as being a sales subsidiary or group of more than one sales subsidiaries, being sufficiently autonomous to generate cash inflows independently.
Taking into account expected future revenue streams, goodwill is tested for possible impairment loss at each closing date, or during the year when there is indication that it may be impaired.

NOTE 2.4 OTHER INTANGIBLE ASSETS

Intangible assets are carried at their purchase price less cumulative amortization and impairment, if any. Amortization is charged on a straight-line basis depending on the estimated useful life of the intangible asset.

Information Management Software

This item contains only software utilized for internal purposes.
The information system progressively implemented in the Group subsidiaries since January 1, 2007 is amortized on a straight-line basis over eight years, corresponding to their useful life as determined by the Group for this intangible asset. Activation of costs relating to this project has been made possible by the fact that the project's technical feasibility has been consistently demonstrated and it has been established as probable that this fixed asset will generate future benefits for the Group.
Other purchased management information software packages are amortized on a straight-line basis over three years.

In addition to expenses incurred in the acquisition of software licenses, the Group also activates direct software development and configuration costs, comprising personnel costs for personnel involved in development of the software and external expenses directly relating to these items.

Patents and Trademarks

Patents, trademarks and associated costs are amortized on a straight-line basis over three to ten years from the date of registration. The amortization period reflects the rate of consumption by the company of the economic benefits generated by the asset. The Group is not dependent on any patents or licenses that it does not own.
In terms of intellectual property, no patents or other industrial property rights belonging to the Group are currently under license to third parties.
The rights held by the Group, notably with regard to software specific to its business as a software developer and publisher, are used under license by its customers within the framework of sales activity.
The Group does not activate any internally-generated expense relating to patents and trademarks.

Other

Other intangible assets are amortized on a straight-line basis over two to five years.

NOTE 2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less accumulated depreciation and impairment, if any.
When a tangible asset comprises significant components with different useful lives, the latter are analyzed separately. Consequently, costs incurred in replacing or renewing a component of a tangible asset are booked as a distinct asset. The carrying value of the component replaced is written-off.

Moreover, the Group considers that there is no residual value on its assets. At each closing date, the useful life of assets is reviewed and adjusted as required.
Subsequent expenditures relating to a tangible asset are capitalized if they increase the future economic benefits of the specific asset to which they are attached. All other costs are expensed directly at the time they are incurred.
Financial expense is not included in the cost of acquisition of tangible assets. Investment grants received are deducted from the value of tangible assets.
Depreciation is computed on this net amount.
Losses or gains on disposals of assets are recognized in the income statement under caption "Selling, general and administrative expenses".
Depreciation is computed on the straight-line method over their estimated useful lives as follows:

- buildings and building main structures: 20-35 years;
- secondary structures and building installations: 15 years;
- fixtures and installations: 5-10 years;
- land arrangements: 5-10 years;
- technical installations, equipment and tools: 4-10 years;
- office equipment and computers: 3-5 years;
- office furniture: 5-10 years.

NOTE 2.6 FIXED ASSETS IMPAIRMENT—IMPAIRMENT TESTS

When events or changes in the market environment, or internal factors, indicate a potential impairment of value of goodwill, other intangible assets or property, plant and equipment, these are subject to thorough reviewing. Impairment tests are carried out systematically at least once a year.

Goodwill

Goodwill is tested for impairment by comparing its carrying value with the recoverable amount of the Cash Generating Unit (CGU) it has been allocated to, which is defined as the higher of the asset's fair value less costs to sell and value in use determined as the present value of future cash flows attached to them, excluding interest and tax. The results utilized are derived from the Group's three-year plan. Beyond the time frame of the three-year plan, cash flows are projected to infinity, the assumed growth rate being dependent on the growth potential of the markets and/or products concerned by the impairment test. The discount rate is computed under the Weighted Average Cost of Capital (WACC) method, the cost of capital being determined by applying the Capital Asset Pricing Model (CAPM). If the impairment test reveals an impairment of value relative to the carrying value, an irreversible impairment loss is recognized to reduce the carrying value of the goodwill to its recoverable amount. This charge, if any, is recognized under "Goodwill impairment" in the income statement.

Other Fixed Assets

Other intangible assets and property, plant and equipment are tested by comparing the carrying value of each relevant group of assets (which may be an isolated asset or a cash-generating unit) with its recoverable amount. If the latter is lower than the carrying value, an impairment charge equal to the difference between these two amounts is recognized. The base and the schedule of amortization/depreciation of the assets concerned are reduced if a loss is recognized, the resulting charge being recorded as an amortization/depreciation charge under "Cost of goods sold", or "Selling, general and administrative expenses" in the income statement depending on the nature and use of the assets concerned.

NOTE 2.7 NON-CURRENT FINANCIAL ASSETS

This item mainly comprises investments in subsidiaries and receivables relating to financial investments in unconsolidated companies.

Investments in subsidiaries are classified as available for sale securities, as required by IAS 39. They are recognized at fair value.
Non-current financial assets are tested for impairment annually on the basis of the net asset value of the related companies.

NOTE 2.8 DEFERRED INCOME TAX

Deferred income tax is accounted for using the liability method on temporary differences arising between the book value and tax value of assets and liabilities shown in the statement of financial position. The same is true for tax loss carry-forwards. Deferred taxes are calculated at the future tax rates enacted or substantially enacted at the fiscal year closing date. For a given entity, assets and liabilities are netted where taxes are levied by the same tax authority, and where permitted by the local tax authorities. Deferred tax assets are recognized where their future utilization is deemed probable in light of expected future taxable profits.

NOTE 2.9 INVENTORIES

Inventories of raw materials are valued at the lower of purchase cost (including related costs) and their net realizable value. Finished goods and works-in-progress are valued at the lower of standard industrial cost (adjusted at year end on an actual cost basis) and their net realizable value.
The purchase cost of raw materials and the industrial cost of works-in-progress and finished goods is calculated with the weighted-average cost method.
Net realizable value is the estimated selling price in the normal course of business, less the estimated cost of completion or upgrading of the product and unavoidable selling costs.
Inventory cost does not include interest expense.
A write-down is recorded if the net realizable value is lower than the book value.

Write-downs on inventories of consumables and spare parts are calculated by comparing book value and probable net realizable value considering a specific analysis of the rotation and obsolescence of inventory items, taking into account the utilization of items for maintenance and after-sales services activities, and changes in the range of products marketed.

NOTE 2.10 TRADE ACCOUNTS RECEIVABLE

Accounts receivable are originally accounted for in the statement of financial position at their fair value, and thereafter at their amortized cost, which generally corresponds to their nominal value. Impairment is recorded on the basis of the risk of non-collectibility of the receivable, measured on a case-by-case basis in light of how long they are overdue, the results of reminders sent out, the local payment practices, and the risks specific to each country.
Sales in those countries presenting a high degree of political or economic risk are generally secured by letters of credit or bank guarantees.
Owing to the very short collection periods, trade accounts receivable are not discounted.

NOTE 2.11 CASH AND CASH EQUIVALENTS

Cash (as shown in the cash flow statement) is defined as the sum of cash and cash equivalents, less bank overdrafts if any. Cash equivalents comprise either investments in money-market funds recorded at market value at year end, convertible at any time into a known amount of cash, or negotiable certificates of deposit issued by the company's banks. Interest-bearing sight accounts opened in the company's banks are treated as cash. All these holdings are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, as specified by IAS 7.

Net cash (as shown in note 18.1) is defined as the amount of "Cash and cash equivalents" less financial borrowings (as shown in note 18.2) when this difference is positive. When this difference is negative, the result corresponds to a net financial debt.
Cash equivalents are recognized at their fair value; changes in fair value are recognized in the income statement.

NOTE 2.12 CAPITAL MANAGEMENT POLICY

In managing its capital, the Group seeks to achieve the best possible return on capital employed.
The liquidity of Lectra's shares on the stock market has been ensured by means of a Liquidity Agreement with Exane BNP Paribas (see note 15.2).
The payment of dividends is an important instrument in the Group's capital management policy, the aim being to compensate shareholders adequately as soon as this is justified by the Group's financial situation while preserving the necessary cash to fund the Group's future development.

NOTE 2.13 STOCK OPTIONS

The company has granted stock options to Group employees and managers (with the exception of the Chairman of the Board of Directors and the Chief Executive Officer). All plans are issued at an exercise price equal or greater than the first average stock market price for the 20 trading days prior to granting (see note 15.5).
Under the regulations governing the company's stock option plans, which have been accepted by all of their beneficiaries, the Group is not exposed to the risk of liability for payment of French social security charges on capital gains arising from sales of shares within four years of the granting of options, for the options granted before September 28, 2012. Those granted after this date are no longer concerned, as tax and social security regulations have changed.
The application of IFRS 2 has resulted in the recognition of an expense corresponding to the fair value of the advantage granted to beneficiaries. This expense is recognized in personnel costs with a counterpart in equity. It is measured using the Black & Scholes model and is deferred *prorata temporis* over the stock options' vesting period.

NOTE 2.14 BORROWINGS AND FINANCIAL DEBT

The non-current portion of borrowings and financial debt comprises the portion due in more than one year of:
– the interest-bearing bank loans;
– non-interest bearing reimbursable advances corresponding to R&D grants.
The current portion of borrowings and financial debt comprises:
– the portion of bank loans, reimbursable advances and other borrowings and financial debt due in less than one year;
– cash facilities, where applicable.
Borrowings and financial debts are recognized initially at fair value.
At closing date, borrowings and financial debt are stated at amortized cost using the effective interest rate method, defined as the rate whereby cash received equals the total cash flows relating to the servicing of the borrowing.
Interest expenses on the bank loans and on the utilization of cash credit facilities are recognized as financial expenses in the income statement.

NOTE 2.15 RETIREMENT BENEFITS OBLIGATIONS

The Group is subject to a variety of deferred employee benefits plans, in France or depending on the subsidiary concerned. The only deferred employee liabilities are retirement benefits obligations.

Defined Contributions Plans
These refer to post-employment benefits plans under which, for certain categories of employee, the Group pays defined contributions to an outside insurance company or pension fund. Contributions are paid in exchange for services rendered by employees during the period. They are expensed as incurred, as are wages and salaries.

Defined contributions plans do not create future liabilities for the Group and hence do not require recognition of provisions.
Most of the defined contributions plans to which the company and its subsidiaries contribute are additional to the employees' legal retirement plans. In the case of the latter, the company and its subsidiaries contribute directly to a social security fund.

Defined Benefits Plans

These refer to post-employment benefits payable plans that guarantee contractual additional income for certain categories of employee (in some cases these plans are governed by specific industry-wide agreements). For the Group, these plans only cover lump-sum termination payments solely as required by legislation or as defined by the relevant industrywide agreement.
The guaranteed additional income represents a future contribution for which a liability is estimated.
This liability is calculated by estimating the benefits to which employees will be entitled having regard to projected end-of-career salaries.
Benefits are reviewed in order to determine the net present value of the liability in respect of defined benefits in accordance with the principles set forth in IAS 19.
Actuarial assumptions notably include a rate of salary increase, a discount rate (this corresponds to the average annual yield on investment-grade bonds with maturities approximately equal to those of the Group's obligations), an average rate of social charges and a turnover rate, in accordance with local regulations where appropriate, based on observed historical data.
Actuarial gains and losses are recognized in other comprehensive income, in accordance with the principles set forth in IAS 19 (revised).
The relevant portion of any change in past-service cost is recognized immediately as a loss (in the case of an increase) or as a gain (in the case of a reduction) in the income statement when a plan is amended, in accordance with the principles set forth in IAS 19 (revised).

NOTE 2.16 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

All known risks at the date of Board of Directors' meeting are reviewed in detail and a provision is recognized if an obligation exists, if the costs entailed to settle this obligation are probable or certain, and if they can be measured reliably.
In view of the short-term nature of the risks covered by these provisions, the discounting impact is immaterial and therefore not recognized.
At the time of the effective payment, the provision reversal is deducted from the corresponding expenses.

Provisions for Warranties

A provision for warranties covers, on the basis of historical data, probable costs arising from warranties granted by the Group to its customers at the time of the sale of CAD/CAM equipment, for replacement of parts, technicians' travel and labor costs. This provision is recorded at the time of the booking of the sale generating a contractual obligation of warranty.

NOTE 2.17 TRADE PAYABLES

Trade accounts payables refer to obligations to pay for goods or services acquired in the ordinary course of business. They are classified in current liabilities when payment is due in less than twelve months, or in non-current liabilities when payment is due in more than one year.

NOTE 2.18 REVENUES

Revenues from sales of hardware are recognized when the significant risks and benefits relating to ownership are transferred to the purchaser.

For hardware, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms. For software, these conditions are generally fulfilled at the time of installation of the software on the customer's computer (either by CD-ROM or downloading).
Revenues from software evolution contracts and recurring services contracts are billed in advance, and their booking is spread over the duration of the contracts.
Revenues from the billing of services not covered by recurring contracts are recognized at the time of performance of the service or, where appropriate, on a percentage of completion basis.

NOTE 2.19 COST OF GOODS SOLD

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight-out costs on equipments 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".

NOTE 2.20 RESEARCH AND DEVELOPMENT

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)* and the portion of the competitiveness and employment tax credit *(crédit d'impôt compétitivité et emploi)* relating to R&D personnel, as well as grants linked to R&D projects, if any, are deducted from R&D expenses.

NOTE 2.21 GRANTS

Investment grants are deducted from the cost of the fixed assets in respect of which they were received. Consequently they are recognized in the income statement over the period of consumption of the economic benefits expected to derive from the corresponding asset.
Operating grants are deducted from their associated charges in the income statement. This applies to subsidies received to finance research and development projects.
The Group receives interest-free reimbursable advances to finance R&D projects, which are recognized at their amortized cost. Benefits arising from the non-remuneration of these advances are initially recognized as operating grants in deferred income, then deducted from R&D expenses in the income statement.
The research tax credit is treated as a subsidy and is discounted in light of the probability of future offsetting against income tax and in light of reimbursement of the unused portion after four years (see note 14).

NOTE 2.22 INCOME FROM OPERATIONS BEFORE NON-RECURRING ITEMS

Where applicable, non-recurring items excluded from income from operations before non-recurring items reflect the impact on the financial statements of events that are either unusual, abnormal and infrequent. There are very few of these and their amounts are significant.
When the Group identifies non-recurring items, it tracks its operating performance by means of an intermediate balance referred to as "Income from operations before non-recurring items". This financial metric reflects income from operations less non-recurring income and plus non-recurring expenses, as set forth in CNC (French National Accounting Council) recommendation 2009-R.03.

NOTE 2.23 BASIC AND DILUTED EARNINGS PER SHARE

Basic net earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the fiscal year, 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 fiscal year 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.

NOTE 2.24 OPERATING SEGMENTS

Operating segment reporting is based directly on the Group's performance tracking and review systems. The operating segments disclosed in note 35 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the Group's "chief operating decision maker".

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

NOTE 2.25 FREE CASH FLOW

Free cash flow is equal to net cash provided by operating activities plus cash used in investing activities—excluding cash used for acquisitions of companies, net of cash acquired.

NOTE 2.26 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the financial statements in accordance with IFRS demands that certain critical accounting estimates be made. Management is also required to exercise its judgment in applying the Group's accounting policies. Although such estimates are made in a particularly uncertain environment, their relevance is supported by the Group's business model features.

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, relates to goodwill impairment (see note 6) and deferred taxation (see note 11.3).

NOTE 2.27 TRANSLATION METHODS

Translation of Financial Statements of Foreign Subsidiaries

Most subsidiaries' functional currency is the local currency, which corresponds to the currency in which the majority of their transactions are denominated.
Accounts of foreign companies are translated as follows:
– assets and liabilities are translated at the official year-end closing rates;
– reserves and retained earnings are translated at historical rates;
– income statement items are translated at the average monthly exchange rates for the year for revenues and cost of products and services sold, and at the annual average rate for all other income statement items other than in the case of material transactions;
– items in the cash flow statement are translated at the annual average exchange rate. Thus, movements in short-term assets and liabilities are not directly comparable with the corresponding movements in the statement of financial position, due to the currency translation impact, which is shown under a separate heading in the cash flow statement: "Effect of changes in foreign exchange rates";
– gains or losses arising from the translation of the net assets of foreign consolidated subsidiaries, and those derived from the use of average exchange rates to determine income or loss, are recognized in "Currency translation adjustment" in other comprehensive income and therefore have no impact on earnings, unless all or part of the corresponding investments are divested. They are adjusted to reflect long-term unrealized gains or losses on internal Group positions.

Translation of Items from the Statement of Financial Position Denominated in Foreign Currencies

- **Third-Party Receivables and Payables**

Foreign currency purchases and revenues are booked at the average exchange rate for the month in which they are recorded, and may be hedged.
Receivables and payables denominated in foreign currencies are translated at the December 31 exchange rate.
Unrealized differences arising from the translation of foreign currencies appear in the income statement. Where a currency has been hedged forward, the translation adjustment reflected on the income statement is offset by the change in fair value of the hedging instrument.

- **Inter-Company Receivables and Payables**

Translation differences on short-term receivables and payables are included in net income using the same procedure as for third-party receivables and payables.
Unrealized translation gains or losses on long-term assets and liabilities, whose settlement is neither scheduled nor probable in the foreseeable future, are recorded as a component of other comprehensive income under the heading "Currency translation adjustment" and have no impact on net income, in compliance with the paragraph "Net Investment in a Foreign Operation" of IAS 21.

Exchange Rate Table of Main Currencies

(equivalent value for one euro)	2015	2014
British pound		
Annual average rate	0.73	0.81
Closing rate	0.73	0.78
Chinese yuan		
Annual average rate	6.97	8.19
Closing rate	7.07	7.43
Japanese yen		
Annual average rate	134	140
Closing rate	131	145
US dollar		
Annual average rate	1.11	1.33
Closing rate	1.09	1.21

NOTE 2.28 CONSOLIDATION METHODS

The consolidated financial statements include the accounts of the parent company Lectra SA and the subsidiaries the Group controls. A company is deemed to be controlled when the Group has the power to determine, either directly or indirectly, the financial and operating policies of the company such as to benefit from the said company's operations.
Subsidiaries are fully consolidated from the date of transfer of control over them to the Group. They are removed from consolidation from the date at which it ceases to control them or at which these entities are liquidated.
Lectra SA holds more than 99% of the voting rights of the fully-consolidated companies. They are designated FC (fully consolidated) in the schedule of consolidated companies below. Certain sales and service subsidiaries not material to the Group, either individually or in the aggregate, are not consolidated. Most of these subsidiaries' sales activity is billed directly by Lectra SA. They are designated NC in the schedule.
Companies are consolidated on the basis of company documents and financial statements drawn up in each country and restated in accordance with the aforementioned accounting rules and methods.
All intra-Group balances and transactions, together with unrealized profits arising from these transactions, are eliminated upon consolidation.
All consolidated companies close their annual financial statements at December 31.

Scope of Consolidation

At December 31, 2015, the Group's scope of consolidation comprised Lectra SA together with 29 fully-consolidated companies.
In October 2015, the company created a new subsidiary, Lectra Tunisie CP, whose only business is the sale of consumables and spare parts in Tunisia. Since October 1, 2015, this subsidiary has taken over this business, which was until then managed and invoiced directly by Lectra SA in France, as the first subsidiary Lectra Systèmes Tunisie is limited to selling services. The impact of the creation of Lectra Tunisie CP on the income statement and the statement of financial position of the Group is immaterial.
In April 2014, the company had established a new subsidiary in South Korea, Lectra Korea, which took over the assets of the agent that previously represented Lectra in this country for many years, and has been fully consolidated since May 1, 2014. The cost of the purchase by Lectra of these activities is shown in the statement of cash flows under "Acquisition cost of activities purchased". The impact of this subsidiary's creation and of the purchase of these activities on the income statement and the statement of financial position was immaterial, the bulk of sales in this country having previously been billed by Lectra SA.
There was no other change than these in the scope of consolidation in 2015 and 2014.
In view of the parent company's percentage of interest in its consolidated subsidiaries, non-controlling interests are immaterial and are therefore not shown in the financial statements.

			% of ownership and control		Consolidation method[1]	
Company	City	Country	2015	2014	2015	2014
Parent company						
Lectra SA	Cestas	France			FC	FC
Subsidiaries						
Lectra Australia Pty Ltd	Melbourne	Australia	100.0	100.0	FC	FC
Lectra Benelux NV	Gent	Belgium	99.9	99.9	FC	FC
Lectra Brasil Ltda	São Paulo	Brazil	100.0	100.0	FC	FC
Lectra Canada Inc.	Montreal	Canada	100.0	100.0	FC	FC
Lectra Systems (Shanghai) Co. Ltd	Shanghai	China	100.0	100.0	FC	FC
Lectra Hong Kong Ltd	Hong Kong	China	99.9	99.9	FC	FC
Lectra Danmark A/S	Herning	Denmark	100.0	100.0	FC	FC
Lectra Baltic Oü	Tallinn	Estonia	100.0	100.0	FC	FC
Lectra Suomi Oy	Helsinki	Finland	100.0	100.0	FC	FC
Lectra Deutschland GmbH	Munich	Germany	99.9	99.9	FC	FC
Humantec Industriesysteme GmbH	Huisheim	Germany	100.0	100.0	FC	FC
Lectra Hellas EPE	Athens	Greece	99.9	99.9	FC	FC
Lectra Technologies India Private Ltd	Bangalore	India	100.0	100.0	FC	FC
Lectra Italia SpA	Milan	Italy	100.0	100.0	FC	FC
Lectra Japan Ltd	Osaka	Japan	100.0	100.0	FC	FC
Lectra Systèmes SA de CV	Mexico	Mexico	100.0	100.0	FC	FC
Lectra Maroc Sarl	Casablanca	Morocco	99.4	99.4	FC	FC
Lectra Portugal Lda	Porto	Portugal	99.9	99.9	FC	FC
Lectra Russia OOO	Moscow	Russia	100.0	100.0	FC	FC
Lectra Systems Pty Ltd	Durban	South Africa	100.0	100.0	FC	FC
Lectra Korea Ltd	Seoul	South Korea	100.0	100.0	FC	FC
Lectra Sistemas Española SA	Madrid	Spain	100.0	100.0	FC	FC
Lectra Sverige AB	Borås	Sweden	100.0	100.0	FC	FC
Lectra Taiwan Co. Ltd	Taipei	Taiwan	100.0	100.0	FC	FC
Lectra Systèmes Tunisie SA	Tunis	Tunisia	99.8	99.8	FC	FC
Lectra Tunisie CP Sarl	Tunis	Tunisia	100.0	-	FC	-
Lectra Systèmes CAD—CAM AS	Istanbul	Turkey	99.0	99.0	FC	FC
Lectra UK Ltd	Greengates	United Kingdom	99.9	99.9	FC	FC
Lectra USA Inc.	Atlanta	USA	100.0	100.0	FC	FC
Lectra Chile SA	Santiago	Chile	99.9	99.9	NC	NC
Lectra Israel Ltd	Natanya	Israel	100.0	100.0	NC	NC
Lectra Philippines Inc.	Manila	Philippines	99.8	99.8	NC	NC
Lectra Singapore Pte Ltd	Singapore	Singapore	100.0	100.0	NC	NC

(1) FC: Fully consolidated—NC: Non-consolidated

NOTE 3 RISK MANAGEMENT POLICY

The Group's risk management policy contained in these notes to the consolidated financial statements is mainly discussed in the Management Discussion of the Board of Directors, in chapter 4, Risk Factors-Management of Risks, in chapter 14, Business Trends and Outlook, and in the Chairman's Report on Internal Control Procedures and Risk Management, and on Corporate Governance, in chapter 2, Internal Control and Risk Management Procedures Established by the company, to which readers are referred.

NOTE 3.1 SPECIFIC FOREIGN EXCHANGE RISKS—DERIVATIVE FINANCIAL INSTRUMENTS

Exchange rate fluctuations impact the Group at two levels:

Competitive Impact

The Group sells its products and services in global markets. It manufactures its equipment in France, whereas many of its competitors, especially its main competitor, a US company, manufacture their equipment in China. As a result, their production costs are primarily in Chinese yuan, while those of the Group are in euros. Meanwhile, sales prices in many markets are in US dollars or euros. The exchange rates between these three currencies have, therefore, a competitive impact.

Currency Translation Impact

On the income statement, as accounts are consolidated in euros, revenues, gross profit, and income from operations of a subsidiary conducting its business in a foreign currency are mechanically affected by exchange rate fluctuations when translated into euros.

In the statement of financial position, this refers primarily to foreign currency accounts receivable, in particular to those between the parent company Lectra SA and its subsidiaries, and it corresponds to the variation between exchange rates at collection date and those at billing date. This impact is recognized in "Foreign exchange income (loss)" in the income statement.

Currency risk is borne by the parent company. The Group seeks to protect all of its foreign currency receivables and debts as well as future cash flows against currency risk on economically reasonable terms. Hedging decisions take into account currency risks and trends where these are likely to significantly impact the Group's financial condition and competitive situation. The bulk of foreign currency risks concerns the US dollar.

The Group generally seeks to hedge the risk arising in respect of its net operational exposure to the US dollar (revenues less all expenses denominated in US dollars or strongly correlated currencies) by purchasing dollar puts (or euro calls) or by forward currency contracts, when justified by the cost of the hedge.

The Group's statement of financial position exposure is monitored in real time; it utilizes forward currency contracts to hedge all relevant receivables and debts. Consequently, all changes in the value of these instruments offset foreign exchange gains and losses on the remeasurement of these receivables and debts. However, these hedges are not treated as hedge accounting under IAS 39.

Derivative financial instruments to hedge future flows of funds are initially booked at fair value. Thereafter they are marked to market at the closing date. Resulting profits or losses are recognized in other comprehensive income or in the income statement, depending upon whether the hedge (or the portion of the hedge concerned) was deemed to be effective or not, as defined by IAS 39.

In the event that an appreciation was initially recognized in other comprehensive income, the accumulated profits or losses are then included in income for the period in which the initially planned transaction actually takes place.

NOTE 3.2 INTEREST RATE RISK

Since the Group no longer has financial debt, it is not exposed to interest-rate risk.
It follows a conservative policy in short-term investing its cash surpluses, placing them only in money market mutual funds classified as "euro money market funds" by the French *Autorité des Marchés Financiers* (Financial Markets Authority), in negotiable certificates of deposit issued by the company's banks, or in interest-bearing sight accounts.

NOTE 3.3 CUSTOMER DEPENDENCY RISK

There is no material risk of dependence on any particular customer or group of customers, as no individual customer represented more than 7% of consolidated revenues over the last three-year period 2013-2015, and the company's 10 largest customers combined represented less than 20% of revenues, and the top 20 customers less than 25%.

NOTE 3.4 CREDIT AND COUNTERPARTY RISKS

The Group is exposed to credit risks in the event of customer insolvency or default. This risk is heightened in the context of the economic crisis and can negatively impact Group profit.
The Group pays close attention to the security of payment for the systems and services delivered to its customers. It manages this risk via a range of procedures, which include in particular preventively analyzing its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears.
The Group's exposure to counterparty risks arises from its cash holdings and contracts entered into within the framework of its policy on foreign exchange risk hedging. The Group's cash surpluses consist exclusively of interest-bearing sight accounts held with blue-chip international banks. The foreign exchange risk-hedging contracts are negotiated exclusively in France with the three company's banks. The corresponding asset values are monitored regularly.

NOTE 3.5 LIQUIDITY RISK

The main indicator monitored by the Group in order to measure a possible liquidity risk is available cash. This indicator is compared against cash forecasts over a six-month time horizon.
The risk that the Group may have to contend with a short-term cash shortage is close to zero. The Group's free cash represents a substantial and sufficient liquidity reserve.
Thanks to its structurally negative or near-zero working capital requirement, any cash flows generated by the Group bolster its liquidity.

NOTE 4 DIVIDEND

The Board of Directors has proposed to the Shareholders' Meeting on April 29, 2016 to declare a dividend of €0.30 per share in 2016 in respect of fiscal year 2015. The company declared a dividend of €0.25 per share in 2015 in respect of fiscal year 2014.

TAX ON DIVIDENDS

The Second Supplementary Budget Act for 2012 *(deuxième loi de finances rectificative pour 2012)*, dated August 16, 2012, has instituted a tax on dividends in the form of an additional contribution to income tax equal to 3% of the amounts distributed by companies subject to income tax in France. It applies to all dividends paid with effect from August 17, 2012 and must be recognized at the time of approval of the dividends by the Board of Directors.
A tax expense of €229,000 has been recognized on dividends paid in 2015 in respect of fiscal year 2014. This amount was fully recognized in the income statement, as per IAS 12.

NOTE 5 POST-CLOSING EVENTS

No significant event has occurred since December 31, 2015.

NOTE 6 GOODWILL

The creation, in October 2015, of Lectra Tunisie CP (see note 2.28) had no impact on the Group's goodwill.
The creation, in April 2014, of the new subsidiary in South Korea had generated goodwill for €664,000 at the rate prevailing on the date of business take-over.
No other acquisition was made in fiscal years 2015 or 2014.
All past acquisitions have been paid for in full, and no further earn-out is due on these transactions.

	2015	2014
Book value at January 1	**31,724**	**29,986**
Change in scope of consolidation[1]	-	664
Exchange rate differences	1,045	1,074
Book value at December 31	**32,769**	**31,724**

(1) Integration of Lectra Korea, see note 2.28.

Cash Generating Units (CGU) have been defined as a sales subsidiary or group of more than one sales subsidiaries sharing common resources; these CGUs are sufficiently autonomous to generate cash inflows independently. Operating segments as defined in note 35 correspond to groups of these CGUs.
Goodwill shown in the statement of financial position was subjected to impairment testing in December 2015.
The projections used are based on the 2016-2018 plan for each CGU based on actual 2015 cash flows and on forecast trends in each market concerned and, beyond 2018, on a projection to infinity using a 2% growth rate assumption.
Future flows after tax are discounted using the weighted average cost of capital. The discount rates adopted differ depending on the CGU to allow for exposure to local economic environments. They break down as follows:
– The cost of capital is determined on the basis of an estimated risk free rate for each CGU plus a market risk premium of 5% adjusted for the sector's beta.
– A specific risk premium has been computed for each CGU. This varies between 1% and 1.5% depending on the estimated risk attaching to fulfilment of the 2016-2018 plan.
– The normative cost of debt is determined on the basis of average market conditions for the fourth quarter of 2015 plus the margin applied by the banks.
The resulting estimates of the value in use of goodwill components for the year-end closing have not led to any impairment.

At December 31, 2015, goodwill and discount rates used in impairment testing were allocated as follows among the different CGUs:

	2015		2014	
	Discount rate	Goodwill	Discount rate	Goodwill
Italy	6.5%	12,004	6.6%	12,004
France	6.9%	2,324	7.0%	2,324
Germany	6.5%	4,631	7.0%	4,631
Northern Europe	6.9%	1,590	7.0%	1,590
United Kingdom	7.0%	1,465	7.1%	1,380
Portugal	6.6%	220	6.7%	220
Total Europe		22,234		22,149
North America	8.4%	7,469	8.4%	6,697
South America	11.6%	496	10.6%	445
Total Americas		7,965		7,142
Japan	6.1%	431	6.4%	389
Greater China	8.8%	706	8.5%	633
Other Asian Countries	8.4%	1,066	8.4%	1,042
Total Asia		2,203		2,065
Other Countries	12.5%	368	10.5%	368
Total		**32,769**		**31,724**

An identical valuation of the CGUs would result from application of a pre-tax discount rate to pre-tax cash flows.
The following sensitivity calculations have been performed:
– a one percentage point rise in the discount rate;
– a one percentage point decline relative to the revenue growth assumptions for each CGU used in the drawing up of the 2016-2018 plan;
– a one percentage point decline in the gross profit margin assumptions used in the drawing up the 2016-2018 plan;
– a one percentage point decline in the long-term growth rate to infinity (from 2% to 1%).
None of these sensitivity calculations would entail any impairment of goodwill.

NOTE 7 OTHER INTANGIBLE ASSETS

2014	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2014	**21,117**	**2,169**	**1,145**	**24,431**
External purchases	857	49	-	906
Internal developments	992	-	-	992
Write-offs and disposals	(702)	(309)	(39)	(1,050)
Exchange rate differences	91	-	10	102
Gross value at December 31, 2014	**22,356**	**1,909**	**1,116**	**25,381**
Amortization at December 31, 2014	**(18,258)**	**(1,676)**	**(1,041)**	**(20,975)**
Net value at December 31, 2014	**4,097**	**233**	**76**	**4,406**

2015	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2015	**22,356**	**1,909**	**1,116**	**25,381**
External purchases	1,279	123	-	1,402
Internal developments	681	-	-	681
Write-offs and disposals	(858)	(8)	(80)	(945)
Exchange rate differences	59	-	8	66
Gross value at December 31, 2015	**23,517**	**2,024**	**1,044**	**26,585**
Amortization at December 31, 2015	**(18,934)**	**(1,770)**	**(991)**	**(21,695)**
Net value at December 31, 2015	**4,583**	**254**	**53**	**4,890**

Changes in amortization:

2014	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2014	**(17,129)**	**(1,885)**	**(1,014)**	**(20,028)**
Amortization charges	(1,765)	(94)	(21)	(1,880)
Amortization write-backs	693	304	-	997
Exchange rate differences	(57)	-	(6)	(63)
Amortization at December 31, 2014	**(18,258)**	**(1,676)**	**(1,041)**	**(20,975)**

2015	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2015	**(18,258)**	**(1,676)**	**(1,041)**	**(20,975)**
Amortization charges	(1,498)	(99)	(25)	(1,621)
Amortization write-backs	858	4	80	942
Exchange rate differences	(36)	-	(6)	(42)
Amortization at December 31, 2015	**(18,934)**	**(1,770)**	**(991)**	**(21,695)**

INFORMATION MANAGEMENT SOFTWARE

As part of an ongoing process of upgrading and reinforcing its information systems, in 2014 and 2015, the Group has purchased licenses of new information management software together with additional licenses for software already in use. Investments concerned license purchase costs together with the cost of developing and configuring the corresponding software.

Write-offs and disposals of intangible assets mainly concern the scrapping of obsolete software.

OTHER INTANGIBLE ASSETS

At December 31, 2015, nearly all of the other intangible assets were fully amortized several years ago. The net residual value of these intangible assets was €53,000.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

2014	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2014	10,439	15,792	21,327	47,558
Additions	491	1,301	3,088	4,880
Change in scope of consolidation(1)	672	5	10	687
Write-offs and disposals	(15)	(496)	(1,149)	(1,660)
Transfers	-	8	(8)	-
Exchange rate differences	55	310	275	640
Gross value at December 31, 2014	11,641	16,919	23,544	52,105
Accumulated depreciation at December 31, 2014	(6,724)	(11,996)	(16,937)	(35,658)
Net value at December 31, 2014	4,917	4,923	6,606	16,447

(1) Integration of Lectra Korea, see note 2.28.

2015	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2015	11,641	16,919	23,544	52,105
Additions	1,436	1,749	2,949	6,134
Write-offs and disposals	-	(1,069)	(1,943)	(3,012)
Transfers(1)	-	-	806	806
Exchange rate differences	24	243	156	422
Gross value at December 31, 2015	13,101	17,842	25,511	56,454
Accumulated depreciation at December 31, 2015	(6,842)	(12,190)	(17,716)	(36,748)
Net value at December 31, 2015	6,259	5,652	7,795	19,706

(1) In 2015, the Group transferred to fixed assets equipment prototypes under development, which were previously accounted for as inventory.

Changes in depreciation:

2014	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2014	**(6,625)**	**(11,303)**	**(16,301)**	**(34,230)**
Additional depreciation	(102)	(884)	(1,589)	(2,575)
Write-offs and disposals	3	441	1,118	1,563
Transfers	-	-	-	-
Exchange rate differences	-	(251)	(165)	(416)
Accumulated depreciation at December 31, 2014	**(6,724)**	**(11,996)**	**(16,937)**	**(35,658)**

2015	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2015	**(6,724)**	**(11,996)**	**(16,937)**	**(35,658)**
Additional depreciation	(118)	(1,102)	(2,592)	(3,813)
Write-offs and disposals	-	1,066	1,896	2,961
Transfers	-	-	-	-
Exchange rate differences	-	(157)	(82)	(239)
Accumulated depreciation at December 31, 2015	**(6,842)**	**(12,190)**	**(17,716)**	**(36,748)**

LAND AND BUILDINGS

"Land and buildings" pertain mostly to the Group's industrial facilities in Bordeaux-Cestas (France), amounting to a gross value of €12,350,000, net of investment grants received and to a net value of €5,527,000 at December 31, 2015. They also include the offices of Lectra Korea, located in Seoul, purchased on May 1, 2014, for a gross amount of €751,000 at December 31, 2015 closing rate.

The facilities in Bordeaux-Cestas cover an area of 11.6 hectares (28.7 acres) and the buildings represent 32,000 sq. m. (345,000 sq. ft.). Land and buildings were partly purchased by the company under financial leases (the company became owner of them in October 2002), and partly outright. These have been paid for in full. Investments are made on a regular basis on the Bordeaux-Cestas facilities. In 2015, they mainly concern the construction of a new building for R&D on CAD/CAM equipment. In 2014, they related to the extension of the site's staff restaurant in order to add a customer reception venue.

At December 31, 2015, the land (non-depreciable) is valued at €994,000. The buildings total a gross value of €12,107,000, already €6,842,000 depreciated.

FIXTURES AND FITTINGS

Fixtures and fittings refer to the Bordeaux-Cestas industrial facility and the fittings installed in all Group subsidiaries for a gross amount of €17,842,000 and for a net amount of €5,652,000 at December 31, 2015.

Investments have been made in fixtures and fittings in 2014 (€1,301,000) and in 2015 (€1,749,000) throughout the Group. In 2015, they mainly concern the construction of the new building for R&D on CAD/CAM equipment. In 2014, most of these were related to the Bordeaux-Cestas facilities, with the extension of the site's staff restaurant in order to add a customer reception venue and the refurbishing of the International Advanced Technology & Conference Center.

EQUIPMENT AND OTHER

Other fixed assets purchased in 2015 and 2014 mainly concerned computer equipment and manufacturing molds and tools for the Bordeaux-Cestas industrial facility.

NOTE 9 NON-CURRENT FINANCIAL ASSETS

2014	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2014	**2,559**	**1,130**	**3,689**
Additions	-	2,547	2,547
Change in scope of consolidation[1]	-	36	36
Disposals	(308)	(2,550)	(2,859)
Exchange rate differences	-	51	51
Gross value at December 31, 2014	**2,251**	**1,213**	**3,463**
Impairment provision at December 31, 2014	**(1,415)**	**-**	**(1,415)**
Net value at December 31, 2014	**835**	**1,213**	**2,048**

(1) Integration of Lectra Korea, see note 2.28.

2015	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2015	**2,251**	**1,213**	**3,463**
Additions	-	2,740	2,740
Disposals	-	(2,777)	(2,777)
Exchange rate differences	-	43	43
Gross value at December 31, 2015	**2,251**	**1,219**	**3,470**
Impairment provision at December 31, 2015	**(1,369)**	**-**	**(1,369)**
Net value at December 31, 2015	**881**	**1,219**	**2,100**

INVESTMENTS IN SUBSIDIARIES

“Investments in subsidiaries” exclusively concern companies not included in the scope of consolidation. The disposal recorded in 2014 stemmed from the winding down the Cypriot subsidiary, which had had no business for years. All of the former subsidiary’s assets had been fully depreciated (mostly through a provision for liabilities, see note 21), this winding down had no impact on the Group’s income statement or cash.

At December 31, 2015, four sales and service subsidiaries were not consolidated, their revenues being immaterial both separately and in the aggregate. Most of these subsidiaries’ sales activity is billed directly by the parent company, Lectra SA (see note 10).

OTHER NON-CURRENT FINANCIAL ASSETS

"Other non-current financial assets" at December 31, 2015 primarily consisted of deposits and guarantees for €941,000 (€909,000 at December 31, 2014) together with the amount of €278,000 placed by the company at the disposal of Exane BNP Paribas, along with company shares under the Liquidity Agreement (see note 15.2).
The cumulative amount of all transactions on treasury shares by Exane BNP Paribas under the Liquidity Agreement is shown in additions (in case of sales of shares) and disposals (in case of purchases of shares) of other non-current financial assets (see note 15.2).
The movements for the period also concern cash exchanged between the company and Exane BNP Paribas, under the Liquidity Agreement managed by the latter.

NOTE 10 RELATED-PARTY TRANSACTIONS

The amounts below refer to fiscal year 2015 or December 31, 2015, as applicable.

Type of transaction	Items concerned in consolidated financial statements	Non-consolidated subsidiaries concerned	Amounts
Receivables[1]	Trade accounts receivable	Lectra Chile SA (Chile)	286
		Lectra Philippines Inc. (Philippines)	526
		Lectra Israel Ltd (Israel)	391
Payables[1]	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	(874)
Sales[2]	Revenues	Lectra Chile SA (Chile)	138
		Lectra Israel Ltd (Israel)	40
		Lectra Philippines Inc. (Philippines)	181
Commissions[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(114)
		Lectra Philippines Inc. (Philippines)	(37)
Personnel invoiced[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(894)
Fees[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(76)

(1) Amounts between brackets represent a liability in the statement of financial position, absence of brackets an asset.
(2) Amounts between brackets represent an expense for the year, absence of brackets an income for the year.

All of the parties concerned are non-consolidated subsidiaries acting either as agents or distributors of the company's products in their respective countries. The transactions in question mainly concern purchases to the parent company for the purposes of their local operations or charges and commissions billed to the parent company in order to cover their overheads when they act as agents, as is generally the case with new systems sales.
Transactions with the Board of Directors are limited to compensation, details of which are provided in notes 28.5 and 28.6.

NOTE 11 TAXES

NOTE 11.1 TAX EXPENSE

	2015	2014[1]
Current tax income (expense)	(8,131)	(5,355)
Deferred tax income (expense)	393	304
Net tax income (expense)	**(7,738)**	**(5,051)**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2).

The research tax credit *(crédit d'impôt recherche)* applicable in France is deducted from R&D expenses (see note 26). It amounts to €6,936,000 in 2015 (€6,829,000 in 2014). In 2014, it included a €716,000 provision reversal, following the decision of the French Council of State (*Conseil d'État,* the Supreme Court for administrative justice), confirming that profit-sharing expenses could be incorporated in the annual calculation base.
The French *crédit d'impôt compétitivité et emploi* (competitiveness and employment tax credit) enacted in 2013 is shown as a deduction from the corresponding personnel expense (see note 28) and amounted to €839,000 in 2015 (€825,000 in 2014).
These two tax credits are therefore not included in the net tax charge for the two fiscal years presented here.

NOTE 11.2 EFFECTIVE TAX RATE

	2015	2014[1]
Income before tax	**31,116**	**19,421**
Standard rate of corporate income tax in France	34.1%	33.9%
Expense at standard rate of corporate income tax in France	**(10,620)**	**(6,574)**
Effect of other countries' different tax rates	870	570
Effect of reduction in unrecognized deferred tax assets	1,542	(245)
Effect of tax credits[2]	2,869	2,924
Effect of CVAE[3]	(738)	(707)
Effect of other non taxable income and non deductible expenses[4]	(778)	(423)
Others	(883)	(597)
Net tax income / (expense)	**(7,738)**	**(5,051)**
Consolidated effective tax rate	24.9%	26.0%

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2).
(2) This mainly includes the non taxation of the research tax credit and the competitiveness and employment tax credit, included in the income before tax.
(3) The *"cotisation sur la valeur ajoutée des entreprises"* (CVAE—tax on corporate added value) in France satisfies the definition of an income tax as set forth in IAS 12.2.
(4) This mainly corresponds to income or expenses for the year that will never be subject to taxation or tax deduction, including in particular the neutralization for tax purposes of some consolidation entries.

NOTE 11.3 DEFERRED TAXES

Owing to uncertainty over the future profit-earning capacity of some subsidiaries, all or part of their tax losses and other deferred tax assets on timing differences are not recognized as deferred tax assets. The Group considers five years to be a reasonable period for the utilization of tax losses. Beyond that period, because forecasts of activity levels being deemed insufficiently reliable, the portion of their bases not expected to be utilized in the next five years is not recognized. Forecasts made in order to determine the timetable for the utilization of deferred tax losses, based on assumptions consistent with those used in the impairment tests, were established on the basis of a Group three-year plan, extrapolated to five years, subject to annual review, with variants according to the strategic objectives of each of the subsidiaries concerned and allowing for the cyclical difficulties and macroeconomic environment in which it operates.

At December 31, 2015, unrecognized deferred tax assets totaled €4,111,000, compared with €5,086,000 at December 31, 2014. The decrease compared to December 31, 2014 mainly stems from a higher level of recognition of the deferred tax assets of the US subsidiary, following an improvement of its performances, which in turn led to a forecast of greater utilization of its tax losses. The US subsidiary still accounted for the bulk of unrecognized deferred tax assets, totaling €1,399,000 at December 31, 2015. Its tax losses can be deferred for 20 years, pushing back the most distant deadlines for utilization to 2029.

The share of deferred taxes directly recognized in equity for the year worked out to a negative €108,000 corresponding to the tax effect of actuarial gains and losses on retirement benefit obligations booking (a positive €348,000 in 2014).

Deferred taxes are listed below according to the type of timing difference:

	2013[1]	P&L impact	Equity impact	Translation adjustments	2014[1]
Tax losses carry-forward	1,832	17	-	97	1,945
Depreciation/amortization of tangible and intangible assets	197	(110)	-	(38)	50
Impairment of accounts receivable	718	(63)	-	11	667
Write-down of inventories	1,074	288	37	228	1,627
Financial instruments	-	164	-	(164)	-
Other timing differences	3,279	8	311	118	3,716
Total	**7,100**	**304**	**348**	**252**	**8,005**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated statement of financial position at January 1 and December 31, 2014 (see note 2).

	2014[1]	P&L impact	Equity impact	Translation adjustments	2015
Tax losses carry-forward	1,945	991	-	115	3,051
Depreciation/amortization of tangible and intangible assets	50	(565)	-	(47)	(562)
Impairment of accounts receivable	667	65	-	7	739
Write-down of inventories	1,627	(22)	-	149	1,754
Financial instruments	-	(85)	-	85	-
Other timing differences	3,716	9	(108)	97	3,714
Total	**8,005**	**393**	**(108)**	**406**	**8,696**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated statement of financial position at December 31, 2014 (see note 2).

NOTE 11.4 SCHEDULE OF RECOGNIZED TAX LOSSES CARRY-FORWARDS

	Expiration date			
	Until 2016	Between 2017 and 2021	Beyond 2021	Total
Deferred tax assets on tax losses(1)	16	527	2,508	3,051

(1) The above expiration date corresponds to the maximum period of utilization. Recognized deferred tax assets are expected to be utilized within a period of one to five years.

NOTE 12 INVENTORIES

	2015	2014
Raw materials	22,927	22,441
Finished goods and work-in-progress(1)	7,861	7,024
Inventories, gross value	**30,788**	**29,465**
Raw materials	(4,612)	(4,913)
Finished goods and work-in-progress(1)	(2,851)	(2,703)
Write-downs	**(7,463)**	**(7,617)**
Raw materials	18,315	17,528
Finished goods and work-in-progress(1)	5,011	4,321
Inventories, net value	**23,326**	**21,848**

(1) Including demonstration and second-hand equipment.

€550,000 of inventory fully written-down was scrapped in the course of 2015 (€935,000 in 2014), thereby diminishing the gross value and write-downs by the same amount. Inventory write-downs charged for the year amounted to €2,711,000 (€2,290,000 in 2014). Reversals of previous write-downs relating to sales transactions amounted to €2,327,000 (€1,731,000 in 2014), booked against the charges for the period.

NOTE 13 TRADE ACCOUNTS RECEIVABLE

	2015	2014
Trade accounts receivable, gross value	58,594	55,350
Provision for impairment	(5,190)	(4,819)
Trade accounts receivable, net value	**53,404**	**50,531**

Trade receivables at December 31, 2015 include €50,325,000, excluding taxes, on recurring contracts, other services and equipment billed in advance for 2016 (compared with €48,096,000, excluding taxes, at December 31, 2014 in respect of 2015). An identical amount is recorded in "Deferred revenues" (see note 20). Payments on recurring contracts generally become due on the first day of the period covered by them.
Thus, at December 31, 2015, trade accounts receivables, net from deferred revenues, amount to €3,079,000 (€2,435,000 at December 31, 2014).

The Group recognizes an impairment expense on trade accounts in light of an individual analysis of overdue accounts receivable. Changes in impairment charges are analyzed below:

	2015	2014
Impairment at January 1	**(4,819)**	**(5,071)**
Additional impairment	(2,061)	(2,002)
Write-back of impairment no longer required	(204)	114
Write-back of impairment on receivables paid	999	899
Write-back of impairment on irrecoverable receivables written-off	907	1,291
Exchange rate differences	(11)	(50)
Impairment at December 31	**(5,190)**	**(4,819)**

Changes in impairment of accounts receivable and related accounts, net of irrecoverable receivables, are recognized under "Selling, general and administrative expenses" in the income statement, on the line "Net provisions" (see note 27).
Schedule of gross receivables by maturity:

	2015	2014
Receivables not yet due	46,843	43,699
Receivables due, of which due in:	11,751	11,651
– less than 1 month	3,204	3,301
– 1-3 months	1,827	1,930
– more than 3 months	6,720	6,420
Total	**58,594**	**55,350**

Almost all of the provisions of accounts receivable and related accounts amounting to €5,190,000 at December 31, 2015 concerned accounts more than three months overdue.

NOTE 14 OTHER CURRENT ASSETS

	2015	2014
Research tax credit and employment and competitiveness tax credit	23,727	23,046
Discount effect on research tax credit receivable	-	(23)
Other tax receivables	1,592	2,689
Income tax down-payments	2,047	2,349
Staff and social security receivables	201	251
Other current assets	3,925	3,838
Total other current assets	**31,493**	**32,149**

RESEARCH TAX CREDIT—COMPETITIVENESS AND EMPLOYMENT TAX CREDIT

When the research tax credit and the competitiveness and employment tax credit recognized in the year cannot be charged against income tax, they are treated as a receivable on the French tax administration *(Trésor public).* If unused in the ensuing three years, it is repaid in the course of the fourth year.
At December 31, 2015, the company held a receivable of €23,727,000 on the French tax administration.
The competitiveness and employment tax credits relating to fiscal 2013, 2014 and 2015 have been entirely deducted from the corporate income tax due by Lectra SA.
Thus, at December 31, 2015, the €23,727,000 receivable 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 2015 (€5,662,000), 2014 (€6,898,000), 2013 (€6,083,000) and 2012 (€5,084,000).
In light of its estimates of tax credits and corporate income tax for the next three fiscal years, the company does not expect to make any payment in respect of corporate income tax, from which will be deducted in full the competitiveness and employment tax credit, and, when applicable, the research tax credit of each fiscal year. In Q3 2015, it received the balance outstanding relating to the 2011 tax credit of €4,804,000 and expects to receive the reimbursement of the balance outstanding of these non-deducted tax credits as follows: in 2016 (in respect of the 2012 tax credit), 2017 (in respect of the 2013 tax credit), 2018 (in respect of the 2014 tax credit) and 2019 (in respect of the 2015 tax credit).
This situation will last for as long as the amount of the annual tax credits exceeds the amount of income tax payable.
If the income tax expense were to rise above the amounts of tax credits for the year, the company would continue not to pay the corporate income tax until deduction of the corresponding receivable 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.

OTHER TAX RECEIVABLES

Other tax receivables at December 31, 2015 comprised the recoverable value-added tax for parent company and its subsidiaries.

OTHER CURRENT ASSETS

Other current assets comprise prepaid rental expenses, insurance premiums and equipment rental charges.

NOTE 15 SHAREHOLDERS' EQUITY

NOTE 15.1 SHARE CAPITAL AND SHARE PREMIUM

The share capital at December 31, 2015 totaled €30,786,399, divided into 30,786,399 shares with a par value of €1.00. It was €30,329,114, divided into 30,329,114 shares with a par value of €1.00, at December 31, 2014.
Share capital has increased by 457,285 shares since January 1, 2015, resulting from the exercise of stock options, that is, an increase of €457,285 of share capital together with a total share premium of €1,737,000 (issuance of 664,699 shares in 2014).
Apart from the authority to increase the capital granted by the Shareholders' Meeting within the framework of the granting of stock options to senior managers and employees, there is no other authorization outstanding such as to alter the number of shares comprising the share capital.
The tables below provide details of changes in the number of shares, the capital and additional paid-in capital and merger premiums in fiscal 2015 and 2014.

Note 15.1.1 Share Capital

	2015		2014	
	Number of shares	Share capital (in euros)	Number of shares	Share capital (in euros)
Share capital at January 1	**30,329,114**	**30,329,114**	**29,664,415**	**29,664,415**
Stock options exercised	457,285	457,285	664,699	664,699
Share capital at December 31	**30,786,399**	**30,786,399**	**30,329,114**	**30,329,114**

The shares comprising the capital are fully paid up.

Note 15.1.2 Share Premium

	2015	2014
Share premium at January 1	**7,282**	**5,043**
Stock options exercised	1,737	2,239
Share premium at December 31	**9,018**	**7,282**

NOTE 15.2 TREASURY SHARES

The General Meeting of Shareholders on April 30, 2015 renewed the existing share buyback program authorizing the Board of Directors to buy and sell company shares. The purpose of this program is solely to maintain liquidity in the market of the company's shares, via an authorized investment services provider acting within the framework of a liquidity agreement in compliance with the Charter of Ethics of the French Association of Investment Companies (AFEI) or any other charter recognized by the French Financial Markets Authority (AMF).
Since May 21, 2012, Lectra has contracted with Exane BNP Paribas to act as liquidity provider under a Liquidity Agreement, signed in accordance with the Charter of Ethics of the *Association Française des Marchés Financiers* (AMAFI) recognized by the AMF.
At December 31, 2015, the company held 18,340 shares, i.e. 0.06% of its capital within the framework of the Liquidity Agreement (compared with 0.05% at December 31, 2014) for a total of €203,000 (compared with €133,000 at December 31, 2014) representing an average purchase price of €11.06 per share, which has been deducted from shareholders' equity.

The resources allocated to the Liquidity Agreement also included, at December 31, 2015, the amount of €278,000. Lectra may increase the resources allocated, if necessary, by contributing up to €1,000,000 (with a maximum corresponding to the market value of 150,000 Lectra shares).
The company holds no treasury shares outside the framework of the Liquidity Agreement.

	2015			2014		
	Number of shares	Amount	Average price per share (in euros)	Number of shares	Amount	Average price per share (in euros)
Treasury shares at January 1 (historical cost)	14,932	(133)	8.91	10,408	(83)	8.01
Liquidity agreement						
Purchases (at purchase price)	224,037	(2,629)	11.74	302,206	(2,403)	7.95
Sales (at sale price)	(220,629)	2,603	11.80	(297,682)	2,401	8.07
Net cash flow[1]	**3,408**	**(26)**		**4,524**	**(2)**	
Gains (losses) on disposals		43			48	
Treasury shares at December 31 (historical cost)	**18,340**	**(203)**	**11.06**	**14,932**	**(133)**	**8.91**

(1) A negative figure corresponds to a net outflow reflecting purchases and sales of its own shares by the company.

NOTE 15.3 VOTING RIGHTS

Voting rights are proportional to the capital represented by stock held.
However, double voting rights, subject to certain conditions, existed until May 3, 2001.
The Extraordinary Meeting of Shareholders of May 3, 2001 had decided that shares registered after May 15, 2001, together with shares purchased after that date, are not eligible for double voting rights (with the exception of special cases covered by the corresponding resolution submitted to the said Extraordinary Meeting). At their own initiative, André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer, had canceled at that time the double voting rights attached to the shares they held.
The Board of Directors called an Extraordinary Shareholders' Meeting on September 26, 2014 to approve the amendments and simplifications to the company bylaws, regarding in particular maintenance of the principle of one share, one vote following the entry into force of the French March 29, 2014 Act (Law nº. 2014-384, the "Florange Act"), reversing the principle that held until now, by providing that shares of listed companies registered for at least two years in the name of the same shareholder will henceforward enjoy double voting rights, except where otherwise provided in company bylaws adopted after the promulgation of the law.
As recommended by the Board of Directors, the Extraordinary Shareholders' Meeting of September 26, 2014 approved almost unanimously (99%) the principle of one share, one vote, departing from the new law and amending the company bylaws in consequence.
As a result, at December 31, 2015, 30,451,995 shares qualified for normal voting rights, and only 334,404 (i.e. 1.1% of the share capital) for double voting rights. Moreover, no other shares could potentially qualify for double voting rights at some future date.
At December 31, 2015, the theoretical total number of voting rights attached to the company's shares was 31,120,803. This number has been reduced to 31,102,463 due to the fact that no voting rights are attached to treasury shares (under the Liquidity Agreement).

NOTE 15.4 STATUTORY THRESHOLDS

Other than the legal notification requirements for crossing the thresholds established by French law, there is no special statutory obligation.

NOTE 15.5 STOCK OPTION PLANS

At December 31, 2015, 227 employees were the beneficiaries of 1,789,501 options and 48 former employees still held 63,749 options; altogether, 275 persons were beneficiaries of options (respectively 201, 37 and 238 at December 31, 2014).

At the same date, the maximum number of shares comprising the share capital, including potential new shares liable to be issued via the exercise of existing rights qualifying for subscription to new shares was 32,639,649, made up as follows:

– share capital: 30,786,399 shares;

– stock options: 1,853,250 shares.

Each option entitles the holder to purchase one new share with a par value of €1.00 at the exercise price set by the Board of Directors on the grant date. If all of the options outstanding were exercised—regardless of whether the beneficiary's options are vested or not yet vested—and regardless of their exercise price relative to their market price at December 31, 2015, the share capital would increase by €1,853,250, together with a total issue premium of €11,094,156.

None of the parent company's subsidiary has set up a stock option or share purchase plan.

Annual option plans are granted by the Board of Directors at least twenty trading days after the dividend approved by the annual Meeting of Shareholders is made payable, or thirty to forty-five calendar dates after the Meeting if no dividend is declared, i.e. around June 10.

The share exercise price is set on the date of granting of the options, at a price in no circumstances less than the average opening price of the share listed for the twenty trading sessions prior to the date of granting of options by the Board of Directors.

IFRS 2 requires companies to expense the value of the benefit granted to the beneficiaries of stock options.

Fair value of stock options granted in 2015 and 2014 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

	2015	2014
Exercise price (in euros)	13.75	8.50
Share price on the date of allocation (in euros)	12.40	7.80
Risk-free interest rate	0.02%	1.84%
Dividend payout rate	1.92%	2.82%
Volatility	17.70%	17.70%
Duration of options	4 years	4 years
Fair value of one option (in euros)	0.86	0.64

Volatility is calculated on the basis of the observed historical volatility of the company's share price over a time frame corresponding to the vesting period. This calculation ignores peaks resulting from exceptional events.

Fair value of the options granted on June 12, 2015 amounts to €500,000. It was reduced to €192,000 following the cancellation of options after the calculation of the actual performance of 2015 for each beneficiary, and the departure of three beneficiaries.

An expense of €167,000 was recognized in the 2015 financial statements, including €85,000 in respect of the grants made in 2015, and €82,000 in respect of options granted previously. Charges for the year are recognized under personnel expenses.

Plans in force at December 31, 2015 will impact the years 2016, 2017 and 2018 alone in the estimated amounts of €90,000, €38,000 and €11,000 respectively.

The Group paid a €95,000 employer's contribution based on the fair value of the options granted in 2015, fully expensed in personnel costs for 2015.

Note 15.5.1 Stock Options Outstanding: Options Granted, Exercised and Canceled During the Period

	2015		2014	
	Number of stock options	Average exercise price (in euros)	Number of stock options	Average exercise price (in euros)
Stock options outstanding at January 1	**2,121,437**	**5.80**	**2,557,443**	**5.10**
Stock options granted during the year	581,420	13.75	687,656	8.50
Stock options exercised during the year	(457,285)	4.80	(664,699)	4.37
Stock options expired/canceled during the year	(392,322)	13.17	(458,963)	8.03
Stock options outstanding at December 31	**1,853,250**	**6.99**	**2,121,437**	**5.80**
– of which fully vested	1,469,597	6.10	1,620,335	5.35
– for which exercise rights remain to be acquired	383,653	10.38	501,102	7.29

For plans in force at December 31, 2015, the terms relating to the vesting of options are determined on an annual basis over a period of four years since January 1 of the year they are granted, and depend on whether the beneficiary was a Group employee at December 31 of the elapsed fiscal year.

Note 15.5.2 Breakdown of Stock Options Outstanding at December 31, 2015, by Category of Beneficiaries

	2015				
	Number of beneficiaries	Number of stock options	%	Of which fully vested	Of which exercise rights remain to be acquired
Executive Directors and other members of the Executive Committee(1)	3	664,853	36%	570,759	94,094
Group management	43	606,336	33%	472,516	133,820
Other employees	181	518,312	28%	362,573	155,739
Persons having left the company and still holding unexercised options	48	63,749	3%	63,749	-
Total	**275**	**1,853,250**	**100%**	**1,469,597**	**383,653**

(1) The only three beneficiaries are Jérôme Viala, Chief Financial Officer, Véronique Zoccoletto, Chief Human Capital and Information Officer and Édouard Macquin, Executive Vice-President, Sales, members of the Executive Committee. André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer do not hold any options.

Note 15.5.3 Breakdown of Stock Options at December 31, 2015, by Expiration Date and Exercise Price

Grant date	Expiration date	Number of stock options	Exercise price (in euros)
June 11, 2008	June 11, 2016	821	6.30
June 11, 2008	June 11, 2016	12,759	4.10
June 9, 2009	June 9, 2017	1,383	4.10
June 9, 2009	June 9, 2017	66,150	2.50
June 10, 2010	June 10, 2018	185,689	2.50
June 9, 2011	June 9, 2019	274,216	6.25
September 4, 2012	September 4, 2020	497,808	6.25
June 13, 2013	June 13, 2021	295,567	6.25
June 16, 2014	June 16, 2022	295,633	8.50
June 12, 2015	June 12, 2023	223,224	13.75
Total		**1,853,250**	**6.99**

Among the 63,749 options held by people having left the Group, 45,941 expire in 2016, 13,723 in 2017 and 4,085 in 2018.

Note 15.5.4 Breakdown of Stock Options for Which Exercise Rights Remain to be Acquired After December 31, 2015 by the Beneficiaries

Year of vesting	Number of stock options
2016	199,154
2017	128,693
2018	55,806
Total	**383,653**

Note 15.5.5 Absence of Stock Option Plans for Executive Directors

No stock options were granted to André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer, who each own more than 10% of the capital since 2000 and have therefore been prohibited since this date by French law from being granted further stock options, and have not received any options.

Note 15.5.6 Stock Options Granted in 2015

On June 12, 2015, the Board of Directors granted 534,396 options, at an exercise price of €13.75 per share to 145 beneficiaries in respect of fulfilment of their annual performance targets set for 2015, corresponding to a maximum number of options.

The definitive number of options is equal to the maximum number of options multiplied by the percentage fulfilment of targets set for each beneficiary for 2015. The options representing the difference between those initially granted and those actually granted in response to actual performance by the beneficiaries are canceled and placed at the disposal of the Board of Directors.

The calculations of actual performances in 2015, based on the Group's consolidated financial statements have been finalized for almost all the beneficiaries, reducing the number of options to 176,588 and the number of beneficiaries to 143. 354,168 options have thus been canceled. The calculations remaining to be finalized represent a maximum of 2,404 options, of which a portion could be canceled.

Moreover, 3,640 options have ceased to be valid due to the departure of two beneficiaries in 2015.

The Board of Directors of June 12, 2015 also granted 47,024 options at an exercise price of €13.75 per option to 53 winners of the 2014 Lectra Worldwide Championship, of which 388 options ceased to be valid due to the departure of one beneficiary in 2015.

Altogether, the Board of Directors thus granted a maximum of 581,420 options to 179 beneficiaries, reduced to 223,224 options and 176 beneficiaries, in respect of the 2015 stock option plan. The 10 Group employees who are not executive corporate officers and to whom the largest number of options was granted in the course of fiscal 2015 were granted a total of 85,432 options.

All of the options granted concerned Group employees.

These options vest over a period of four years from January 1, 2015 and are conditional upon the beneficiary's presence in the Group at the end of each annual period (the beneficiary being required to retain links with the company or with one of its affiliates in the form of an employment contract or as an executive director). The options are subject to a four-year lock-up period applicable to all the beneficiaries of these plans. They are valid for a period of eight years from the date of granting.

Moreover, 34,366 options granted prior to 2015 have ceased to be valid and 240 options of the 2014 plan have been reinstated following the rectification of the calculation of the actual performance of a beneficiary.

Note 15.5.7 Stock Options Exercised in 2015

457,285 options pertaining to the different options plans in force at December 31, 2014 were exercised in 2015.

	2015	
Grant date	Number of stock options exercised	Exercise price (in euros)
June 8, 2007	95,590	6.30
June 11, 2008	84,760	4.10
June 11, 2008	15,789	6.30
June 9, 2009	99,050	2.50
June 9, 2009	6,163	4.10
June 10, 2010	27,420	2.50
June 9, 2011	128,513	6.25
Total	**457,285**	**4.80**

NOTE 16 CURRENCY TRANSLATION ADJUSTMENTS

Analysis of changes recorded in 2015 and 2014:

	2015	2014
Cumulative translation adjustments at January 1	**(8,503)**	**(8,721)**
Differences on translation of subsidiaries' income statements	51	236
Adjustments required to maintain subsidiaries' retained earning at historical exchange rate	1,202	479
Other movements	(944)	(497)
Cumulative translation adjustments at December 31	**(8,194)**	**(8,503)**

NOTE 17 RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations correspond to lump-sum amounts payable under defined benefit plans. These lump-sum amounts are generally paid at the time of retirement, but they may also be paid upon resignation or dismissal, depending on local legislation. The two executive directors *(dirigeants mandataires sociaux)* are not beneficiaries of any defined benefit retirement plans.

These obligations apply mainly in France, in Italy and Japan, as detailed below:

2014	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2014	**4,994**	**1,325**	**805**	**295**	**7,419**
Expense/(Income) of the year	457	36	101	53	647
Benefits paid	-	(351)	(137)	(48)	(536)
Contributions paid	-	-	-	(27)	(27)
Actuarial losses (gains)	874	133	(85)	38	960
Exchange rate differences	-	-	1	15	16
Retirement benefits at December 31, 2014	**6,325**	**1,143**	**685**	**326**	**8,479**

In 2014, actuarial losses generating an increase of the obligation in France came from the sharp fall in discount rates used, from 3.28% to 1.80%.

2015	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2015	**6,325**	**1,143**	**685**	**326**	**8,479**
Expense/(Income) of the year	495	19	71	62	647
Benefits paid	(59)	(116)	(127)	-	(302)
Contributions paid	-	-	-	(70)	(70)
Actuarial losses (gains)	(200)	(46)	(133)	(19)	(398)
Exchange rate differences	-	-	69	(5)	64
Retirement benefits at December 31, 2015	**6,561**	**1,000**	**565**	**294**	**8,420**

Breakdown of net annual charge:

2014	France	Italy	Japan	Others	Total
Service cost provided in the year	284	-	92	30	406
Past service cost	-	-	-	7	7
Net interest cost	173	36	9	16	234
Expense/(income) of the year	**457**	**36**	**101**	**53**	**647**

2015	France	Italy	Japan	Others	Total
Service cost provided in the year	358	-	70	41	469
Past service cost	-	-	-	1	1
Net interest cost	137	19	1	20	177
Expense/(income) of the year	**495**	**19**	**71**	**62**	**647**

Main actuarial assumptions used:

	France	Italy	Japan
Discount rate	2.04%	1.80%	0.20%
Average rate of salary increase, including inflation	2.18%	2.81%	2.74%
Personnel turnover rate	1.69% / 7.67%	5.00%	10.03%

The discount rate used is determined by reference to the yield the date of measurement on investment-grade corporate bonds with a maturity corresponding to the duration of the obligation. For the Eurozone, the discount rate used is determined by reference to the iBoxx rates.
According to estimates made by the Group, a change of plus or minus 0.25% of the discount rate would result in a change in actuarial liabilities of the opposite sign by approximately 3%. Moreover, a change of plus or minus 0.25% of the rate of salary increase would result in a change in actuarial liabilities of the same sign by approximately 2.9%.
The personnel turnover rate was calculated via a table based on age group. For France, the personnel turnover rate for employees under 50 years of age was 1.69% for non-managerial grade personnel, and 7.67% for managerial grade personnel. It was 0% over 50 years of age.

NOTE 18 BORROWINGS AND FINANCIAL DEBTS

NOTE 18.1 NET CASH

	2015	2014
Cash and cash equivalents	59,347	43,484
Borrowings and financial debts	-	(394)
Net cash	**59,347**	**43,090**

After the repayment on March 31, 2015 of the remaining of public grants to finance R&D programs for €394,000, which were its sole debt, the Group had no remaining borrowing or financial debt. Thus, its cash and cash equivalents were equal to its net cash, and amounted to €59,347,000 at December 31, 2015.
The major part of cash is invested in interest-bearing sight accounts.

NOTE 18.2 BORROWINGS BY CATEGORY AND BY MATURITY

At December 31, 2014, the Group's borrowings consisted solely of the remaining part of advances corresponding to public grants to finance R&D programs, repaid on March 31, 2015, for €394,000. Since that date, the Group has been debt-free.

NOTE 18.3 FINANCIAL INSTRUMENTS: INTEREST RATE HEDGES

Since the Group no longer has financial debts, it is not exposed to interest-rate risk, and thus holds no interest rate hedges.

NOTE 18.4 FINANCIAL INSTRUMENTS: CURRENCY HEDGES

In 2015 and 2014, the Group mainly used forward sales and purchases of currencies to hedge its foreign currency balance sheet positions at the end of each month. The main currencies commonly concerned are the US dollar, the Canadian dollar, the British pound, the Hong Kong dollar, the Moroccan dirham, the Singaporean dollar, the Taiwanese dollar and the Japanese yen.

Forward transactions entered into by the company to hedge significant balance sheet currency positions at December 31, 2015 and 2014 are analyzed below:

	2015				2014			
	In foreign currency[1] (in thousands)	Fair value (in thousands of euros)[2]	Difference in value[3]	Expiration date	In foreign currency[1] (in thousands)	Fair value (in thousands of euros)[2]	Difference in value[3]	Expiration date
USD	6,381	5,861	(27)	January 6, 2016	8,034	6,618	(61)	January 6, 2015
CAD	1,915	1,267	(9)	January 6, 2016	1,773	1,261	(15)	January 6, 2015
GBP	(2,059)	(2,806)	7	January 6, 2016	(1,596)	(2,050)	21	January 6, 2015
HKD	9,271	1,099	(10)	January 6, 2016	16,767	1,781	(20)	January 6, 2015
MAD	-	-	-	-	14,909	1,359	(7)	January 6, 2015
SGD	(1,229)	(797)	2	January 6, 2016	(1,146)	(714)	4	January 6, 2015
Other currencies	na	160	(26)	January 6 and 7, 2016	na	(656)	5	January 6 and 7, 2015
Total		**4,785**	**(63)**			**7,599**	**(73)**	

(1) For each currency, net balance of forward sales and (purchases) against euros.

(2) Equivalent value of forward contracts is calculated by dividing the amounts in local currencies hedged by the closing rate.

(3) Difference in value reflects the difference between historical equivalent value and equivalent value at closing price of the forward contracts.

Fair value of forward currency contracts at December 31, 2015 is calculated on the basis of exchange rates published by the European Central Bank (ECB) or, in the absence of quotation by the ECB, on the basis of rates published by Natixis. This valuation is comparable to the procedure utilized for information purposes by the banks with which these forward currency contracts were entered into.

With the exception of Mexico, the People's Republic of China, Russia, South Korea, Tunisia and Turkey (individually representing less than 8% and together less than 17% of Group revenues), each entity bills and is billed in local currency. Consequently, Group exposure to currency risk is borne by the parent company. The table below, showing foreign currency exposure, lists the most significant parent company's foreign currency assets and liabilities, together with the net value of forward transactions unexpired at December 31, 2015 and December 31, 2014:

	2014					
(in thousands of currencies)	USD	BRL	GBP	PLN	SGD	ZAR
Carrying position to be hedged:						
Trade account receivables	22,456	13,146	(2)	873	-	479
Cash	64	-	-	-	-	-
Trade payables	(12,894)	(9,725)	(2,049)	(456)	(1,272)	(1,441)
Total	**9,627**	**3,421**	**(2,051)**	**417**	**(1,272)**	**(962)**
Net nominal of hedges	(8,034)	-	1,596	(412)	1,146	1,108
Net residual position	1,592	3,421	(455)	5	(126)	145
Equivalent value in euros at closing rate	1,312	1,062	(584)	1	(78)	10
Analysis of sensitivity to currency fluctuations						
Closing rate	1.21	3.22	0.78	4.27	1.61	14.04
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.27	3.38	0.82	4.49	1.69	14.74
Currency translation impact	(62)	(51)	28	-	4	-
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.15	3.06	0.74	4.06	1.53	13.33
Currency translation impact	69	56	(31)	-	(4)	1

(in thousands of currencies)	2015 USD	BRL	GBP	PLN	SGD	ZAR
Carrying position to be hedged:						
Trade account receivables	21,656	10,346	(2)	540	-	1,837
Cash	237	-	11	-	-	-
Trade payables	(13,827)	(10,145)	(2,063)	(131)	(1,333)	(1,806)
Total	**8,065**	**201**	**(2,054)**	**410**	**(1,333)**	**31**
Net nominal of hedges	(6,381)	-	2,059	(375)	1,229	(1,648)
Net residual position	**1,684**	**201**	**5**	**34**	**(104)**	**(1,618)**
Equivalent value in euros at closing rate	1,547	47	7	8	(67)	(95)
Analysis of sensitivity to currency fluctuations						
Closing rate	1.09	4.31	0.73	4.26	1.54	16.95
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.14	4.53	0.77	4.47	1.62	17.80
Currency translation impact	(74)	(2)	-	-	3	5
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.03	4.10	0.70	4.05	1.46	16.11
Currency translation impact	81	2	-	-	(4)	(5)

NOTE 19 TRADE AND OTHER PAYABLES

	2015	2014[1]
Trade payables	24,441	20,656
Social debts	19,440	19,315
Fiscal debts	4,808	6,075
Down-payments from customers	8,622	6,887
Other current payables	249	284
Total	**57,561**	**53,216**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated statement of financial position at December 31, 2014 (see note 2).

The increase in customers down payments in the statement of financial position is due to new systems orders in Q4 2015 being higher than those in Q4 2014.

NOTE 20 DEFERRED REVENUES

	2015	2014
Deferred revenues on recurring contracts	46,712	44,031
Other deferred revenues[1]	3,613	4,065
Total	**50,325**	**48,096**

(1) Other deferred revenues mainly correspond to invoiced services, which were not completed at year end.

The counterpart of "Deferred software evolution and on-line services contracts and hardware maintenance and on-line services contracts" and "Other deferred revenues" is recorded for the same amount (plus VAT and related taxes) in "Trade accounts receivable" in the statement of financial position (see note 13).

NOTE 21 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

2014	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2014	1,486	1,209	740	474	3,909
Additional provisions	306	144	234	496	1,180
Used amounts reversed	(683)	-	(286)	(425)	(1,394)
Unused amounts reversed	(386)	-	-	(21)	(407)
Exchange rate differences	-	10	-	-	10
Provisions at December 31, 2014	**723**	**1,363**	**688**	**524**	**3,298**

2015	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2015	723	1,363	688	524	3,298
Additional provisions	272	181	-	688	1,142
Used amounts reversed	(206)	-	(118)	(684)	(1,007)
Unused amounts reversed	(103)	-	-	(39)	(142)
Exchange rate differences	-	(371)	(10)	-	(380)
Provisions at December 31, 2015	**686**	**1,173**	**561**	**490**	**2,910**

CONTINGENT LIABILITIES

The Group had no knowledge, at the date of Board of Directors' meeting to draw up the accounts, of any contingent liability at December 31, 2015.
To the Group's knowledge, there were no proceedings pending at December 31, 2015, other than those for which provision has been made, that could have a material negative impact on the financial condition of the Group.

ENVIRONMENTAL RISKS

Given the nature of its business, the Group is not exposed to any environmental risks.

NOTE 22 ADDITIONAL DISCLOSURE CONCERNING FINANCIAL INSTRUMENTS

The Group has designated the following main categories of financial assets and liabilities:

At December 31, 2014[1]	IAS 39 category	Carried at amortized cost	Carried at fair value through profit or loss	Carried at fair value through OCI	Carrying amount	Fair value
Loans, deposits and guarantees	Loans and receivables	X			1,213	1,213
Trades account receivables	Loans and receivables	X			50,531	50,531
Other current assets	Loans and receivables	X			29,169	29,169
Derivatives not designated as hedges	Financial assets at fair value through profit and loss		X		73	73
Derivatives designated as hedges	Financial assets at fair value through OCI			X	-	-
Cash and cash equivalents	Financial assets at fair value through profit and loss		X		43,484	43,484
Total financial assets					**124,470**	**124,470**
Interest-bearing bank loans	Financial liabilities carried at amortized cost	X			-	-
Repayable advance OSEO	Financial liabilities carried at amortized cost	X			394	394
Cash facilities	Financial liabilities carried at amortized cost	X			-	-
Derivatives not designated as hedges	Financial liabilities at fair value through profit and loss		X		-	-
Derivatives designated as hedges	Financial liabilities at fair value through OCI			X	-	-
Trade payables and other current liabilities	Financial liabilities carried at amortized cost	X			53,216	53,216
Total financial liabilities					**53,610**	**53,610**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated statement of financial position at December 31, 2014 (see note 2).

At December 31, 2015	IAS 39 category	Carried at amortized cost	Carried at fair value through profit or loss	Carried at fair value through OCI	Carrying amount	Fair value
Loans, deposits and guarantees	Loans and receivables	X			1,219	1,219
Trades account receivables	Loans and receivables	X			53,404	53,404
Other current assets	Loans and receivables	X			28,374	28,374
Derivatives not designated as hedges	Financial assets at fair value through profit and loss		X		63	63
Derivatives designated as hedges	Financial assets at fair value through equity			X	-	-
Cash and cash equivalents	Financial assets at fair value through profit and loss		X		59,347	59,347
Total financial assets					**142,407**	**142,407**
Interest-bearing bank loans	Financial liabilities carried at amortized cost	X			-	-
Repayable advance OSEO	Financial liabilities carried at amortized cost	X			-	-
Cash facilities	Financial liabilities carried at amortized cost	X			-	-
Derivatives not designated as hedges	Financial liabilities at fair value through profit and loss		X		-	-
Derivatives designated as hedges	Financial liabilities at fair value through OCI			X	-	-
Trade payables and other current liabilities	Financial liabilities carried at amortized cost	X			57,561	57,561
Total financial liabilities					**57,561**	**57,561**

Fair value of loans and trade accounts receivable, trade payables and other current liabilities is identical to their book value.

NOTE 23 ADDITIONAL DISCLOSURES

Commitments Given

Contractual commitments	Payments due by period: Less than 1 year	Between 1 to 5 years	More than 5 years	Total
Rental contracts: offices	4,009	5,298	787	10,094
Rental contracts: others[1]	5,332	3,602	-	8,934
Total rental contracts	**9,341**	**8,900**	**787**	**19,028**
Other guarantees: sureties[2]	1,807	1,146	28	2,981

(1) These contracts mainly cover IT and office equipment.

(2) This mainly concerns sureties given by banks on the company's behalf, or given by the company to financial institutions against leases made by the latter to its subsidiaries.

Rentals booked as expenses in 2015 amounted to €10,983,000.

Commitments Received

The German subsidiary, Lectra Deutschland GmbH, has access to a confirmed bank credit facility of €1 million intended for the giving of guarantees. This facility is generally renewed annually.

By convention, a minus sign in the tables of notes to the income statement represents a charge for the year, and a plus sign an income or gain for the year. To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2015 and 2014 are also provided at 2014 exchange rates ("like-for-like"), as indicated in the notes concerned.

NOTE 24 REVENUES

In 2015, no single customer represents more than 7% of consolidated revenues, the 10 largest customers combined account for less than 20% of revenues, and the 20 largest customers for less than 25%.

NOTE 24.1 REVENUES BY GEOGRAPHIC REGION

In 2015, almost 52% of total revenues were generated in five countries: the United States (14%), China (11%), Italy (10%), Mexico (9%) and France (7%).
The other two European countries that had suffered severely from the downturn in their economies, Portugal and Spain, accounted for 3% and 2% of revenues respectively. Greece's and Russia's share of revenues is immaterial.

	2015			2014		Changes 2015/2014	
	Actual	%	At 2014 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	101,420	43%	101,005	98,203	46%	+3%	+3%
– France	16,625	7%	16,663	16,620	8%	0%	0%
Americas	65,955	28%	57,254	51,620	24%	+28%	+11%
Asia-Pacific	55,842	23%	48,973	47,770	23%	+17%	+3%
Other countries	14,669	6%	14,291	13,743	7%	+7%	+4%
Total	**237,886**	**100%**	**221,523**	**211,336**	**100%**	**+13%**	**+5%**

NOTE 24.2 REVENUES BY PRODUCT LINE

	2015			2014		Changes 2015/2014	
	Actual	%	At 2014 exchange rates	Actual	%	Actual	Like-for-like
Software, of which:	69,732	29%	65,822	63,430	30%	+10%	+4%
– New licenses	23,728	10%	22,077	21,784	10%	+9%	+1%
– Software evolution and online services contracts	46,004	19%	43,745	41,646	20%	+10%	+5%
CAD/CAM equipment	61,292	26%	55,889	54,330	26%	+13%	+3%
Hardware maintenance and online services contracts	33,694	14%	31,340	29,852	14%	+13%	+5%
Consumables and spare parts	58,837	25%	54,872	51,256	24%	+15%	+7%
Training and consulting services	12,168	5%	11,514	10,368	5%	+17%	+11%
Miscellaneous	2,163	1%	2,086	2,100	1%	+3%	-1%
Total	**237,886**	**100%**	**221,523**	**211,336**	**100%**	**+13%**	**+5%**

NOTE 24.3 BREAKDOWN OF REVENUES BETWEEN NEW SYSTEMS SALES AND RECURRING REVENUES

	2015			2014		Changes 2015/2014	
	Actual	%	At 2014 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales[1]	99,351	42%	91,566	88,582	42%	+12%	+3%
Recurring revenues[2], of which:	138,535	58%	129,957	122,754	58%	+13%	+6%
– Recurring contracts	79,698	33%	75,085	71,498	34%	+11%	+5%
– Consumables and spare parts	58,837	25%	54,872	51,256	24%	+15%	+7%
Total	**237,886**	**100%**	**221,523**	**211,336**	**100%**	**+13%**	**+5%**

(1) Revenues from new systems sales comprise sales of new software licenses, CAD/CAM equipment, professional services and on-call interventions on the installed base.
(2) Recurring revenues fall into two categories:
– software evolution and online services contracts, and CAD/CAM equipment maintenance and online services contracts, which are renewable annually;
– revenues from sales of consumables and spare parts, which are statistically recurrent.

NOTE 24.4 BREAKDOWN OF REVENUES FROM NEW SYSTEMS SALES BY MARKET SECTOR

	2015			2014		Changes 2015/2014	
	Actual	%	At 2014 exchange rates	Actual	%	Actual	Like-for-like
Fashion and apparel	47,078	47%	43,205	41,371	46%	+14%	+4%
Automotive	33,485	34%	30,713	35,433	40%	-5%	-13%
Furniture	13,524	14%	12,781	5,832	7%	+132%	+119%
Other industries	5,264	5%	4,867	5,946	7%	-11%	-18%
Total	**99,351**	**100%**	**91,566**	**88,582**	**100%**	**+12%**	**+3%**

NOTE 24.5 BREAKDOWN OF REVENUES BY CURRENCY

	2015	2014
Euro	46%	49%
US dollar	34%	31%
Chinese yuan	7%	7%
British pound	3%	3%
Japanese yen	2%	3%
Other currencies[1]	8%	7%
Total	**100%**	**100%**

(1) No other single currency represents more than 2% of total revenues.

NOTE 25 COST OF GOODS SOLD AND GROSS PROFIT

	2015	2014
Revenues	237,886	211,336
Cost of goods sold, of which:	(58,580)	(55,606)
– Purchases and freight-in costs	(53,140)	(50,242)
– Inventory movement, net	1,500	1,234
– Industrial added value	(6,940)	(6,598)
Gross profit	**179,306**	**155,730**
(in % of revenues)	75.4%	73.7%

Personnel costs and other operating expenses incurred in the performance of service activities are not included in cost of goods sold but are recognized in "Selling, general and administrative expenses".

NOTE 26 RESEARCH AND DEVELOPMENT

	2015	2014
Fixed personnel costs	(18,649)	(18,597)
Variable personnel costs	(714)	(784)
Other operating expenses	(1,540)	(1,471)
Depreciation expenses	(1,172)	(502)
Total before research tax credit and grants[1]	**(22,075)**	**(21,354)**
(in % of revenues)	9,3%	10,1%
Research tax credit and government grants	7,758	7,875
Total	**(14,317)**	**(13,479)**

(1) This amount includes, in fixed personnel expenses, the relative share of the (French) competitiveness and employment tax credit. Before this deduction, it would amount to €22,371,000 (€21,655,000 in 2014), that is 9.4% of revenues (10.2% in 2014).

NOTE 27 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014[1]
Fixed personnel costs	(77,813)	(71,066)
Variable personnel costs	(10,240)	(10,346)
Other operating expenses	(40,409)	(36,332)
Depreciation expenses	(3,571)	(3,441)
Net provisions	(1,136)	(1,260)
Total[2]	**(133,169)**	**(122,445)**
(in % of revenues)	56.0%	57.9%

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2).
(2) "Selling, general and administrative expenses" do not include the expenses comprised in "Industrial added value" (see note 25), which amounted to €6,940,000 in 2015 and €6,598,000 in 2014.

FEES PAID TO GROUP AUDITORS AND COMPANIES IN THEIR NETWORKS

In 2015, other operating expenses comprised €797,000 in respect of the audit of all Group companies, of which €473,000 for PricewaterhouseCoopers, €253,000 for KPMG and €71,000 for other audit firms, excluding other services provided. The corresponding amount in 2014 was €743,000.

Fees paid by the Group in 2015 to the Statutory Auditors in respect of the audit and other services performed by their networks to consolidated entities were €928,000, of which €618,000 for PricewaterhouseCoopers and €310,000 for KPMG:

	PwC				KPMG			
	Amount		%		Amount		%	
	2015	2014	2015	2014	2015	2014	2015	2014
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
– Issuer (Lectra SA)	143	143	23%	24%	125	125	40%	42%
– Fully-consolidated subsidiaries	312	294	50%	50%	128	129	41%	44%
Others services directly related to the Auditors' engagement								
– Issuer (Lectra SA)	18	18	3%	3%	-	-	0%	0%
– Fully-consolidated subsidiaries	-	-	0%	0%	-	-	0%	0%
Sub-total	**473**	**455**	**77%**	**77%**	**253**	**254**	**82%**	**86%**
Other services to consolidated entities								
– Legal, tax and social reviews[1]	145	133	23%	23%	57	42	18%	14%
Sub-total	**145**	**133**	**23%**	**23%**	**57**	**42**	**18%**	**14%**
Total	**618**	**588**	**100%**	**100%**	**310**	**296**	**100%**	**100%**

(1) These missions mostly relate to tax compliance services provided by members of the network to foreign subsidiaries of the company.

NOTE 28 STAFF

NOTE 28.1 TOTAL PERSONNEL EXPENSES

The table below combines all fixed and variable personnel costs for the Group.

	2015	2014
Research and development	(19,363)	(19,381)
Selling, general and administrative	(88,053)	(81,412)
Manufacturing, logistics and purchasing[1]	(4,644)	(4,483)
Total	**(112,060)**	**(105,276)**

(1) "Manufacturing, logistics and purchasing" personnel expenses are included in the cost of goods sold, in "Industrial added value" (see note 25).

The increase in personnel expenses in "Selling, general and administrative" stems mainly from the transformation plan (which comprises a major recruitment plan to bolster sales and marketing teams, as well as software R&D teams) implemented by the Group over the period 2012-2015, as well as the impacts of the currencies fluctuations against the euro.

Personnel expenses for 2015 are presented after deduction of the (French) competitiveness and employment tax credit, amounting to €839,000 (€825,000 in 2014).

NOTE 28.2 HEADCOUNT AT DECEMBER 31

	2015	2014
Parent company[1]	749	728
Subsidiaries[2], of which:	768	746
– Europe	310	302
– Americas	168	167
– Asia-Pacific	214	205
– Other countries	76	72
Total	**1,517**	**1,474**

(1) In 2015 as in 2014, expatriates are attached to the economic entities for which they work.
(2) Refers to all consolidated and non-consolidated Group companies.

Analysis of Headcount by Function

	2015	2014
Marketing, Sales	306	287
Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance)	467	456
Research and Development	265	260
Purchasing, Production, Logistics	157	157
Administration, Finance, Human Resources, Information Systems	322	314
Total	**1,517**	**1,474**

NOTE 28.3 CONTRIBUTIONS TO PENSION PLANS

Contributions to compulsory or contractual pension plans are expensed in the year in which they are paid.
In 2015, Group companies subject to defined-contribution pension plans booked a sum of €4,435,000 under personnel costs in respect of their contributions to these pension or retirement funds. The main subsidiary concerned, in addition to the parent company, was Italy.

NOTE 28.4 EMPLOYEE PROFIT-SHARING AND INCENTIVE PLAN

Profit-Sharing Plan

An amendment to the October 1984 employee profit-sharing plan *(participation),* applicable solely to parent company employees, was signed in October 2000. Under this plan, a portion of the special employee profit-sharing reserve set aside annually may be invested in equity securities, in a corporate savings plan. Consequently, beneficiaries may choose between five types of funds, one consisting exclusively of Lectra shares, at their discretion.
In 2016, a payment for profit-sharing totaling €112,000 will be made, in respect of fiscal year 2015, due to the fulfilment of the threshold for payment.
This was not the case in 2015 in respect of fiscal year 2014, since the threshold for payment was not fulfilled.

Incentive Plan

A collective employee incentive plan *(intéressement),* applicable solely to parent company employees, was signed for the first time in September 1984 and renewed every year since that date. The most recent incentive plan signed in June 2014 covers the period 2014-2016.
The cumulative incentive amount in respect of fiscal 2015 equals to €1,098,000 (€1,633,000 in respect of 2014). For fiscal 2015, an interim payment of €446,000 was made in November 2015, the balance outstanding to be paid in the first half of 2016.

NOTE 28.5 COMPENSATION OF GROUP MANAGEMENT

The Group management team consists of two executive directors: the Chairman of the Board of Directors and the Chief Executive Officer; the Chief Financial Officer, the Chief Human Capital and Information Officer and, since January 1, 2014, the Executive Vice-President, Sales.
The two executive directors *(dirigeants mandataires sociaux)* are not granted any special arrangement or specific benefits concerning deferred compensation, severance compensation, or pension liabilities committing the company to pay any form of indemnity or benefit in the event of termination of their functions, or at the time of their retirement (they are not under any employment contract to the company), or more generally subsequent to the termination of their functions. The company does not award them bonuses in any form.
Compensation of members of the management team, executive directors or other, comprises a fixed portion and a variable portion.
In 2015, as in 2014, variable compensation for the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer and the Chief Human Capital and Information Officer is set in accordance with four clear and complementary quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets, reflecting the company's strategy of profitable sales activity and earnings growth and determined according to clear criteria:
– a criterion measuring the contributive value of growth in sales activity;
– consolidated income before tax, excluding net financial expense and non-recurring items;

– consolidated free cash flow excluding net financial expense, non-recurring items, income tax and after certain restatements of certain items;
– a criterion measuring the contributive value of recurring contracts.

The corresponding calculations eliminate the impact of actual currency variations relative to those used to set the targets.

Variable compensation for the Executive Vice-President, Sales is set in accordance with three criteria only, with the exclusion of that on the consolidated free cash flow.

For each of these four criteria, the corresponding variable compensation is equal to zero below certain thresholds; if annual targets are met it is 100%; and it is capped at 200% if annual targets are exceeded. Between these thresholds, it is calculated on a linear basis. The results are then weighted for each criterion. Only the annual targets and corresponding thresholds are revised each year on the basis of Group targets for the fiscal year.

Consequently, variable compensation is equal to zero if none of these thresholds is met, and is capped at 200% of target-based variable compensation if annual targets are exceeded on all criteria and result in the ceiling of 200% for each of them.

Conditional upon fulfilment of annual targets, variable compensation for 2015 and 2014 was equal to 60% of total compensation for the Chairman of the Board of Directors and Chief Executive Officer and 35% for the Chief Financial Officer, the Chief Human Capital and Information Officer and the Executive Vice-President, Sales.

Thus, total compensation is comprised between 40% and 160% of the total target-based compensation for the Chairman of the Board of Directors and the Chief Executive Officer. It is comprised between 65% and 135% of the total target-based compensation for the three other members of the management team.

Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent and in line with the evaluation of executive directors' performance, with progress made in implementing the company's medium-term strategy, general macroeconomic conditions, and in particular those of the geographic markets and market sectors in which the company operates. After the close of each fiscal year, the Committee verifies the annual application of these rules and the final amount of variable compensation, on the basis of the audited financial statements.

These criteria and targets also apply to approximately fifteen managers of the parent company Lectra SA, the only differences concerning the portion relating to target-based variable compensations, which is set individually for each manager.

In 2015, the variable portion of compensation for the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer and the Chief Human Capital and Information Officer represented 62% of the amount payable on fulfilment of annual targets, the criteria measuring the contributive value of growth in sales activity, the contributive value of recurring contracts and the consolidated income before tax not having been reached, and that measuring the consolidated free cash flow having been exceeded. Variable compensation for the Executive Vice-President, Sales represented 53% of the amount payable on fulfilment of annual targets.

In 2014, the variable portion of compensation for the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer and the Chief Human Capital and Information Officer had represented 88% of the amount payable on fulfilment of annual targets, the criteria measuring the contributive value of growth in sales activity and the consolidated income before tax not having been reached, but those measuring the contributive value of recurring contracts and consolidated free cash flow having been exceeded. Variable compensation for the Executive Vice-President, Sales had represented 78% of the amount payable on fulfilment of annual targets.

In respect of 2015, aggregate compensation and benefits in kind paid to the Group management team in 2015 (excluding directors' fees for the two executive directors), amounted to €1,968,000, of which €1,228,000 in fixed compensation, €688,000 in variable compensation, and €52,000 in benefits in kind.

In respect of 2014, this aggregate compensation and benefits in kind amounted to €2,160,000, of which €1,179,000 in fixed compensation, €923,000 in variable compensation, and €57,000 in benefits in kind.
The Chief Financial Officer, the Chief Human Capital and Information Officer and the Executive Vice-President, Sales were granted stock options in 2015 (respectively 19,008, 17,652 and 11,624 given their actual performances). An expense of €16,000, €14,000 and €9,000 was recognized in respect of 2015 as a result of the new stock option plan together with prior-year plans concerning these three beneficiaries (€16,000, €13,000 and €6,000 in respect of 2014). The two executive directors held no stock options (see note 15.5.5).

NOTE 28.6 DIRECTORS' FEES

Subject to the approval of the General Meeting of Shareholders on April 29, 2016, €160,000 in directors' fees will be allocated in equal proportions to the four members of the Board with respect to fiscal 2015 (€160,000 with respect to fiscal 2014).
Compensation paid to the two non-executive directors consists exclusively of directors' fees.

NOTE 29 DEPRECIATION AND AMORTIZATION CHARGES

The table below combines all depreciation and amortization charges on tangible and intangible fixed assets (excluding goodwill) and their allocation between income statement items:

	2015	2014
Research and development[1]	(1,172)	(502)
Selling, general and administrative	(3,571)	(3,441)
Manufacturing, logistics and purchasing[2]	(694)	(521)
Total	**(5,437)**	**(4,464)**

(1) Amortization and depreciation expenses allocated to "Research and development" pertain to the share of the intangible assets and property, plant and equipment used by these teams. R&D costs themselves are expensed in full in the year.
(2) "Manufacturing, logistics and purchasing" depreciation and amortization charges are included in "Industrial added value" (see note 25).

NOTE 30 FINANCIAL INCOME AND EXPENSES

	2015	2014
Financial income, of which:	**245**	**394**
Gains on sales of cash equivalents	162	102
Other interest income	72	224
Reversal of provisions for depreciation of investments and loans	11	68
Financial expenses, of which:	**(462)**	**(418)**
Bank charges	(459)	(387)
Interest expense on bank loans and financial debts	-	-
Other financial expenses	(3)	(31)
Total	**(217)**	**(24)**

NOTE 31 FOREIGN EXCHANGE INCOME (LOSS)

A foreign exchange translation loss of €487,000 was recognized in 2015 (€361,000 in 2014).
At December 31, 2015, as at December 31, 2014, the company held no currency options (see note 18.4).

NOTE 32 SHARES USED TO COMPUTE EARNINGS PER SHARE

At December 31, 2015 and 2014, the company had not issued any dilutive instrument other than the stock options detailed in note 15.5.

Basic earnings per share	2015	2014[1]
Net income (in thousands of euros)	23,377	14,370
Weighted average number of shares outstanding during the period[2]	30,646,140	29,984,549
Weighted average number of treasury shares held during the period	(20,576)	(22,897)
Weighted average number of shares used to compute basic earnings per share	30,625,563	29,961,652
Basic earnings per share (in euros)	**0.76**	**0.48**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2).
(2) In 2015, 457,285 stock options were exercised, giving rise to the creation of 457,285 new shares. In 2014, 664,699 stock options were exercised, giving rise to the creation of 664,699 new shares (see note 15).

Diluted earnings per share	2015	2014[1]
Net income (in thousands of euros)	23,377	14,370
Weighted average number of shares outstanding during the period[2]	30,646,140	29,984,549
Weighted average number of treasury shares held during the period	(20,576)	(22,897)
Dilutive effect of stock options, under the share repurchase method[3]	873,028	789,202
Weighted average number of shares used to compute diluted earnings per share	31,498,591	30,750,854
Diluted earnings per share (in euros)	**0.74**	**0.47**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2).
(2) In 2015, 457,285 stock options were exercised, giving rise to the creation of 457,285 new shares. In 2014, 664,699 stock options were exercised, giving rise to the creation of 664,699 new shares (see note 15).
(3) In 2015, due to an average share price of €11.72 during the period, the dilutive effect of stock options under the share repurchase method resulted in 873,028 theoretical additional shares (789,202 theoretical additional shares in 2014 due to an average share price of €8.09).

NOTE 33 INCOME STATEMENT AT CONSTANT EXCHANGE RATES

	2015		2014[1]	Changes 2015/2014	
	Actual	Exchange rates at 2014	Actual	Actual	Like-for-like
Revenues	**237,886**	**221,523**	**211,336**	**+13%**	**+5%**
Cost of goods sold	(58,580)	(57,127)	(55,606)	+5%	+3%
Gross profit	**179,306**	**164,396**	**155,730**	**+15%**	**+6%**
Research and development	(14,317)	(14,317)	(13,479)	+6%	+6%
Selling, general and administrative expenses	(133,169)	(127,189)	(122,445)	+9%	+4%
Income from operations	**31,820**	**22,890**	**19,806**	**+61%**	**+16%**
(in % of revenues)	13.4%	10.3%	9.4%	+4.0 points	+0.9 points

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2).

The company's net operational exposure to foreign exchange fluctuations corresponds to the difference between revenues and total costs denominated in each of these currencies. This exposure mainly concerns the US dollar, which is the principal currency in which business is transacted after the euro. The other currencies having a significant impact on Group exposure to foreign exchange risk are the British pound and the Chinese yuan.
The overall currency variations between 2014 and 2015 increased 2015 Group revenues by €16,363,000 and income from operations by €8,930,000.
The U.S. dollar alone (average parity versus the euro $1.11/€1 in 2015 and $1.33/€1 in 2014) accounted for an increase of €13,181,000 in revenues and of €5,152,000 in income from operations before non-recurring items in the 2015 figures at actual exchange rates, relative to the 2015 figures at 2014 exchange rates.

In 2015, 46% of the Group's consolidated revenues, 82% of its cost of sales, and 67% of its overhead expenses were denominated in euros. These percentages were respectively 34%, 10%, and 5% for the U.S. dollar, as well as 7% (part of the revenues generated in China are denominated in U.S. dollars or other currencies), 3% and 8% for the Chinese yuan. The other currencies each represented less than 3% of revenues, cost of sales and overhead costs.

SENSITIVITY OF REVENUES AND INCOME FROM OPERATIONS TO A CHANGE IN CURRENCIES EXCHANGE RATES

The company has based its 2016 scenarios on parities fixed on December 31, 2015 for the currencies in which the Group generates its revenues, notably $1.10/€1.

In view of the estimated share of revenues and costs denominated in U.S. dollars or in currencies correlated with the U.S. dollar, a 5-cent fall in the euro against the US dollar (leading to an exchange rate of $1.05/€1) would mechanically increase 2016 revenues by approximately €4.4 million and income from operations by €2.4 million. Conversely, a 5-cent appreciation of the euro against the U.S. dollar (i.e. $1.15/€1) would mechanically reduce revenues and income from operations by the same amounts.

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

NOTE 34 QUARTERLY RESULTS OF OPERATIONS

Reconciliation of published quarterly financial statements with the audited annual financial statements:

2015: quarter ended	March 31	June 30	September 30	December 31	2015
Revenues	**56,120**	**60,308**	**59,269**	**62,188**	**237,886**
Cost of goods sold	(13,371)	(14,824)	(14,645)	(15,740)	(58,580)
Gross profit	**42,749**	**45,484**	**44,624**	**46,448**	**179,306**
Research and development	(3,559)	(3,589)	(3,015)	(4,155)	(14,317)
Selling, general and administrative expenses	(33,580)	(34,331)	(31,821)	(33,436)	(133,169)
Income from operations	5,610	7,564	9,788	8,858	31,820
Net Income	**3,711**	**5,281**	**6,978**	**7,407**	**23,377**

2014[1]: quarter ended	March 31	June 30	September 30	December 31	2014
Revenues	**47,651**	**52,507**	**53,751**	**57,428**	**211,336**
Cost of goods sold	(12,756)	(14,045)	(13,851)	(14,955)	(55,606)
Gross profit	**34,895**	**38,462**	**39,900**	**42,473**	**155,730**
Research and development	(2,939)	(3,511)	(2,905)	(4,124)	(13,479)
Selling, general and administrative expenses	(30,038)	(31,002)	(29,608)	(31,797)	(122,445)
Income from operations	1,918	3,949	7,387	6,552	19,806
Net Income	**1,585**	**2,854**	**5,161**	**4,770**	**14,370**

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2).

NOTE 35 OPERATING SEGMENTS INFORMATION

2015	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	101,420	65,955	55,842	14,669	-	237,886
Income (loss) from operations before non-recurring items	11,064	5,126	(1,855)	1,835	15,650	31,820

2014[1]	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	98,203	51,619	47,770	13,744	-	211,336
Income (loss) from operations before non-recurring items	9,415	1,699	348	1,985	6,359	19,806

(1) The impact of the application of IFRIC 21—Levies with effect from January 1, 2015, is restated retrospectively in the consolidated income statement at December 31, 2014 (see note 2).

Income from operations before non-recurring items, which is obtained by adding together the income for each segment, is identical to consolidated income from operations before non-recurring items shown in the Group's consolidated financial statements and therefore does not require reconciliation.

NOTE 36 NON-CASH OPERATING EXPENSES

In 2015, as in 2014, "Non-cash operating expenses" includes unrealized translation gains or losses on short-term balance sheet positions affecting the gain or loss on foreign exchange translation (see note 2.27—Translation Methods), additional financial provisions, the impact of measurement of stock options, and reversal of the provision for impairment of investments in non-consolidated subsidiaries.

NOTE 37 CHANGES IN WORKING CAPITAL REQUIREMENT

In 2015, the net increase of the working capital requirement amounted to €52,000 and broke down as follows:

- +€2,618,000 corresponding to the increase in trade accounts receivable following the sharp rise of revenues (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—see note 13);
- +€2,593,000 corresponding to the increase in inventories;
- +€681,000 arising from the increase of the receivable held by Lectra SA on the French tax administration *(Trésor public)* corresponding to the research tax credit, after deduction from the corporate income tax due for the year, and net of the 2011 research tax credit reimbursed (€4,804,000);
- –€3,704,000 corresponding to an increase in trade accounts payable;
- –€1,595,000 corresponding to the increase of customer down payments in the statement of financial position, due to new systems orders in Q4 2015 being higher than those in Q4 2014;
- –€541,000 arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

In 2014, the net decrease of the working capital requirement amounted to €7,895,000 (after the impact of the application of IFRIC 21—Levies with effect from January 1, 2015, restated retrospectively in the consolidated statement of cash flows at December 31, 2014—see note 2) and comprised:

- –€3,872,000 mainly corresponding to the decrease in trade accounts receivable, due to an improvement in cash collections;
- +€1,435,000 corresponding to an increase in inventories;
- +€753,000 arising from the increase of the receivable on the French tax administration *(Trésor public)* corresponding to the research tax credit and the competitiveness and employment tax credit receivable. This net amount corresponded to the difference between the 2014 tax credits after deduction from the corporate income tax due by Lectra SA, accounted for but not received (€6,482,000), and the 2010 research and development tax credit reimbursed in 2014 (€5,729,000);
- –€2,917,000 corresponding to the increase of customers down payments in the statement of financial position, due to new systems orders in Q4 2014 being higher than those in Q4 2013;
- –€1,529,000 arising from the increase in the amount of variable compensation and profit-sharing, payable in 2015 and relating to 2014, due to greater headcount and improved results;
- –€982,000 corresponding to an increase in trade accounts payable;
- –€783,000 arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

At December 31, 2015, as at December 31, 2014, the ratio of accounts receivable net of down payments received and deferred revenues, measured in DSO (Days Sales Outstanding) represented less than ten days of revenues (inclusive of VAT).

NOTE 38 REPAYMENT OF LONG-TERM AND SHORT-TERM BORROWINGS

NOTE 38.1 PROCEEDS FROM LONG-TERM AND SHORT-TERM BORROWINGS

In 2015 as in 2014, the Group did not contract any financial debts.

NOTE 38.2 REPAYMENT OF LONG-TERM AND SHORT-TERM BORROWINGS

In March 2015, the company repaid the remaining of public grants to finance R&D programs for €394,000. The figure for 2014 was €500,000.

NOTE 39 FREE CASH FLOW

Free cash flow is equal to net cash provided by operating activities plus cash used in investing activities — excluding cash used for acquisitions of companies, net of cash acquired.

	2015	2014
Net cash (used in)/provided by operating activities	29,650	25,751
Net cash (used in)/provided by investing activities, excluding cash used for acquisition of companies	(8,112)	(6,704)
Free cash flow	**21,538**	**19,047**

In 2015, net cash provided by operating activities of €29,650,000 (€25,751,000 in 2014) comprised a €52,000 increase in working capital requirement (a decrease of €7,895,000 in 2014).
Details of changes in working capital requirement are provided in note 37 above.
Free cash flow was €21,538,000 and there were no non-recurring items. In 2014, it was €19,047,000 and there were no non-recurring items.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2015, on:
– the audit of the accompanying consolidated financial statements of Lectra SA;
– the justification of our assessments;
– the specific verification required by law.
These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2015 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:
Your company systematically performs impairment tests of fixed assets at year end and also assesses any impairment indicators, as explained in the note 2.6 "Fixed assets impairment—Impairment tests" to the consolidated financial statements. We have examined the ways this impairment test was implemented as well as the cash flow forecasts and the assumptions upon which these forecasts were based. We verified the appropriateness of the information provided in the note 6 "Goodwill".
As explained in the note 2.8 "Deferred income tax", your company is led to make estimates and assumptions with respect to the evaluation of deferred tax assets. In the context of our assessments, our procedures consisted in assessing the overall consistency of the data and the underlying assumptions used to support the evaluation of these deferred tax assets and in reviewing the company's calculations and the appropriateness of the information provided in note 11.3.
These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. SPECIFIC VERIFICATION

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Mérignac, on February 25, 2016

The Statutory Auditors

PricewaterhouseCoopers Audit

Matthieu Moussy

KPMG SA

Éric Junières

Jean-Pierre Raud

STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF LECTRA SA

For the year ended December 31, 2015

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Lectra SA and in accordance with article L. 225-235 of the French Commercial Code *(Code de commerce)*, we hereby report to you on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2015.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L. 225-37 of the French Commercial Code in particular relating to corporate governance. It is our responsibility:

– to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and

– to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

INFORMATION CONCERNING THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

– obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;

– obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;

– determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L. 225-37 of the French Commercial Code.

OTHER INFORMATION

We attest that the Chairman's report sets out the other information required by article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Mérignac, on February 25, 2016

The Statutory Auditors

PricewaterhouseCoopers Audit

Matthieu Moussy

KPMG SA

Éric Junières

Jean-Pierre Raud

BIOGRAPHIES OF LECTRA DIRECTORS AND MEMBERS OF THE GROUP EXECUTIVE COMMITTEE

André Harari

André Harari, 72, Chairman of the Board of Directors of Lectra since May 3, 2002.

He became Vice Chairman of Lectra's Board of Directors in 1991, and Vice Chairman and Executive Vice President in 1998. He was a member of the Supervisory Board of Lectra from 1978 to 1990, when Compagnie Financière du Scribe was a minority shareholder of Lectra since its early stage, before taking control of it at the end of 1990. André Harari holds no outside directorships.

André Harari was Chairman and Chief Executive Officer of Compagnie Financière du Scribe (Paris, France), a venture capital firm specialized in technology companies, which he founded in 1975. Together with his brother Daniel Harari, he was the main shareholder in Compagnie Financière du Scribe until its merger with Lectra on April 30, 1998. He began his career with the consulting division of Arthur Andersen (Paris, 1970-1975).

André Harari, of French nationality, is a graduate of the *École Polytechnique* and the *École nationale de la statistique et de l'administration économique* (Paris). He also holds a doctorate in management science from the University of Paris-Dauphine.

Daniel Harari

Daniel Harari, 61, Director and Chief Executive Officer of Lectra since May 3, 2002, Chairman of the Executive Committee since its creation in 2005.

He became Chairman and Chief Executive Officer of Lectra in 1991, following its takeover by Compagnie Financière du Scribe at the end of 1990. He holds no directorships outside the company and its subsidiaries.

Daniel Harari was a Director (since 1981) and Chief Executive Officer (since 1986) of Compagnie Financière du Scribe, a venture capital firm specialized in technology companies. André Harari and Daniel Harari were the main shareholders until its merger with Lectra on April 30, 1998.

He began his career as Vice President of Société d'Études et de Gestion Financière Meeschaert, an asset management company (Paris, France, 1980-1983). He was then Chairman and Chief Executive Officer of La Solution Informatique (1984-1990), a PC distribution and services company, and of Interleaf France (1986-1989), a subsidiary of the US software publisher, both of which he founded in Paris.

Daniel Harari, of French nationality, is a graduate of the *École Polytechnique* (Paris, France) and the *Institut Supérieur des Affaires* (Paris, coupled with the second year of the Stanford Business School MBA program, Palo Alto, CA, United States).

Anne Binder

Anne Binder, 65, Director of Lectra since October 27, 2011.

Anne Binder is currently a consultant in financial strategy and an independent Director for publicly traded and non-publicly traded companies. From 1993 to 1996, she was the Executive Manager in charge of the development in France of international financial services group GE Capital and Director of its French subsidiary. From 1990 to 1993, she was the Chief Executive Officer of the holding company Euris and Deputy Chief Executive Officer of investment fund Euris (investments in industrial companies). From 1983 to 1990, she participated in the creation and was General Manager of the French Pallas group (bank and investment). Prior to that, she was an associate manager for Générale Occidentale (bank and industrial holding) from 1978 to 1982. At the beginning of her career, she was a consultant at Boston Consulting Group and then associate manager at Lazard Frères Bank in Paris.

Anne Binder is member of the Strategic Committee of AM France, which manages Alternativa (new European exchange market for small and medium-sized growth companies), member of the Board of Directors of Oceasoft and Senior Advisor of Tikehau. She is also Vice Chairman of the French National Chamber of Financial Expert Consultants.

Anne Binder, of French nationality, graduated from the *Institut d'Études Politiques* of Paris. She also has a BA from the Paris faculty of law and a Master in Business Administration from INSEAD in Fontainebleau, France.

Bernard Jourdan

Bernard Jourdan, 71, Director of Lectra since December 21, 2011.
Bernard Jourdan is currently an independent strategy and management consultant. From 1995 to 2005, he was member of the Board of Directors and Executive Vice President of the SPIE Group, a European leader in electrical and mechanical engineering as well as energy and communication systems. From 1990 to 1995, he was Executive Vice President of Operations of the French subsidiary of the Schindler Group, a leading global provider of elevators and escalators. From 1978 to 1990, he held various positions at Compagnie Générale des Eaux (currently Veolia Environment) group, a world leader in water treatment, environmental services, and energy services; he was, in particular, member of the Board of Directors, Executive Vice President and Chief Executive Officer of subsidiaries of the group in France from 1987 to 1990 and Chief Operating Officer of the US division from 1981 to 1987. In his early career, he was successively a consultant at Arthur Andersen Paris, associate manager at First National Bank of Chicago, and project manager at the *Institut de Développement Industriel* (IDI) in Paris.
Bernard Jourdan holds no outside directorship.
Bernard Jourdan, of French nationality, holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus of *École Centrale de Paris* (Engineering), and obtained an MS (DECS) in accounting from the University of Paris and a BA in economics from the University of Paris Assas.

Nathalie Rossiensky

Nathalie Rossiensky, 46, is a Director of Lectra since 2016.
Nathalie Rossiensky is, since 2013, Senior Vice President at Lombard Odier Europe, based in Paris in charge of large investor relationships and head of commercial development. She started her career at JP Morgan (Paris), Private Bank, before joining the Investment Management Division of Goldman Sachs International, in London in 2005, then in Paris, as Executive Director in charge of asset allocation and investment in all asset classes for family offices and family-owned corporates. From 1998 to 2000, she was Assistant Professor of Finance (tenure track) at the Fuqua School of Business, Duke University (USA); her research was dedicated to asset management, financial intermediation and game theory. She was a speaker in conferences including Stanford University, NYU Stern School of Business in New York, and Insead in France.
Nathalie Rossiensky, of French nationality, graduated from University Paris-IX Dauphine (Master of Applied Mathematics and D.E.A. of Financial Economics), and holds a Ph.D. in Finance from London Business School.

Édouard Macquin

Édouard Macquin, 50, has served as Executive Vice President, Sales, since January 1, 2011. He has been a member of the Executive Committee since January 1, 2014. He joined Lectra in 1987 in the R&D department and later became training manager in the United States, then services manager for Brazil. After that, he took on various marketing positions in Paris, Italy, the United States then in Brazil. In 2000, he was appointed Director of Lectra Brazil, then in 2005 Director for South America.
Édouard Macquin holds an MBA from São Paulo (Brazil) Business School.

Jérôme Viala

Jérôme Viala, 54, Chief Financial Officer of Lectra since 1994, responsible for all financial, legal and manufacturing functions, member of the Executive Committee since its creation in 2005.
He joined the finance department of Lectra in 1985, then successively held the positions of Controller for Europe and North America (1988-1991), CFO for France (1992-1993) and CFO for the Product Division (1993-1994).
Jérôme Viala began his career as a credit analyst at Esso (France). He is a graduate of the *École Supérieure de Commerce de Bordeaux* (Bordeaux, France).

Véronique Zoccoletto

Véronique Zoccoletto, 56, Chief Human Capital Officer, Chief Information Officer since 2005, member of the Executive Committee since its creation in 2005.
She joined Lectra in 1993 as Chief Financial Officer for the Lectra France division, and subsequently was Group controller (1996-1998), Group Sales Administration manager (1998-2000), and Director of Organization and Information Systems (2000-2004).
She began her career with Singer (France) in 1983 as Controller, and then was head of the budget and internal audit department. From 1989 to 1991 she was Chief Financial Officer of SYS-COM Ingénierie (France). In 1991 she became CFO of Riva Hugin Sweda France.
Véronique Zoccoletto graduated from the University of Paris-Dauphine (France).

BOARD OF DIRECTORS AND GROUP MANAGEMENT

Board of Directors

André Harari, *Chairman*
Daniel Harari, *Chief Executive Officer*
Anne Binder
Bernard Jourdan
Nathalie Rossiensky(1)

Audit Committee
Bernard Jourdan, *Chairman*
Anne Binder
Nathalie Rossiensky(1)

Compensation Committee
Bernard Jourdan, *Chairman*
Anne Binder
Nathalie Rossiensky(1)

Strategic Committee
André Harari, *Chairman*
Anne Binder
Bernard Jourdan
Nathalie Rossiensky(1)

(1) Subject to approval by the Ordinary Shareholders' Meeting of April 29, 2016.

Group Management

Executive Committee
Daniel Harari, *Chief Executive Officer, Chairman*
Édouard Macquin, *Executive Vice President, Sales*
Jérôme Viala, *Chief Financial Officer*
Véronique Zoccoletto, *Chief Human Capital Officer, Chief Information Officer*

Management Team
Laurent Alt, *Director, Software R&D*
Olivier du Chesnay, *Deputy Chief Financial Officer*
Céline Choussy-Bedouet, *Chief Marketing Officer*
Daniel Dufag, *General Counsel*
Javier Garcia, *Sales Director, Automotive*
Laurence Jacquot, *Director, Hardware R&D and Manufacturing*
Arnaud Masseron, *Director, Professional Services*
Bruno Mattia, *Director, Strategic Accounts Fashion*
Philippe Ribera, *Director, Software Innovation*
Didier Teiller, *Director, Customer Care*

Americas
Jason Adams, *Managing Director, North America*
Adriana Vono Papavero, *Managing Director, South America*

Asia-Pacific
Yves Delhaye, *Managing Director, ASEAN, Australia, South Korea, India*
Jean-Maurice Férauge, *Managing Director, Japan*
Andreas Kim, *Managing Director, China*

Europe
Corinne Barbot-Morales, *Managing Director, Spain*
Fabio Canali, *Managing Director, Italy*
Karen Elalouf, *Managing Director, France*
Jean-Patrice Gros, *Managing Director, Northern Europe*
Chris Nicolaes, *Managing Director, Germany & Eastern Europe*
Rodrigo Siza, *Managing Director, Portugal*

Other countries
Burak Susoy, *Managing Director, Turkey and Middle East*
Michael Stoter, *Managing Director, South Africa*

Statutory Auditors

PricewaterhouseCoopers Audit SA
Represented by Matthieu Moussy
Crystal Park—63, rue de Villiers
92208 Neuilly-sur-Seine Cedex

KPMG SA
Represented by Jean-Pierre Raud and Éric Junières
Domaine de Pelus—11, rue Archimède
33692 Mérignac Cedex

A complete list of agents and distributors is available at lectra.com.